52 MONDAYS

2024

Mon	Tue	Wed	Thu	Fri	Sat	Sun
25	26	27	28	29	30	01
02	03	04	05	06	07	08
09	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31	01	02	03	04	05

BY KAREN WEBSTER

2024

PYMNTS®

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NAVIGATING 2024:

THE CONNECTED ECONOMY THROUGH KAREN WEBSTER'S LENS

There are 52 Mondays in a year. For the last 15 of those years, I have published a piece of content on as many of those Mondays as I could. My all-time record was 56. This year I clocked in at 15.

My writings in 2024 focused on fewer topics, but those with deeper purpose and broader implications for payments and the digital economy. Issues that have the potential to fundamentally change the who, the how and the what of commerce as digital transformation becomes less of a boardroom talking point and more of the strategic DNA of every business.

Many of the issues that inspired my writings will persist as we wave goodbye to 2024 and say hello to 2025. Regulation, the consumer and business credit economy, the embeddness of everything, working capital and cash flow, GenAI, the impact of changing demographics on every facet of the digital and physical economy, the role of Big Tech and Big Retail in how and where commerce happens — all seem so familiar and so well trodden. Yet it is the nuance, the context, that can be overlooked, even underappreciated, that really does become the essence of the story.

Knowing both is where I think you'll find clues about how the next act of payments will unfold. And gain a deeper understanding of the new dynamics that will create value — and monetize it — in the new year.

So, those are the insights that I aim to bring to forward, one Monday at a time, and tried to in 2024. To start conversations, to offer a different point of view than the "traditional" mainstream way of thinking. Provocative by design. Data- and insight-driven at the core. Inspired by the many conversations that I had in 2024 with many of the most innovative people who touch payments, commerce and the digital economy — some 198 in all.

As we start the countdown to the five years that will end this extraordinary decade-in-the-making, I can't promise that I'll break my all-time Monday writing record in 2025, but I'll promise to get closer!

Karen Webster
CEO | PYMNTS.com
#52Mondays

Thank you for reading and commenting. Wishing you the happiest, most joyous and most inspiring new year.

Karen L. Webster

52 MON DAYS

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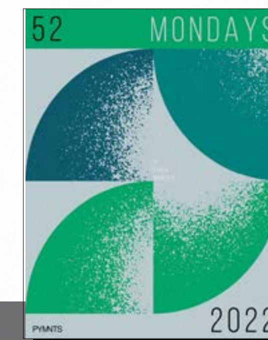

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January 8, 2024

THE EIGHT PIVOTAL STRATEGIES FOR PAYMENTS AND THE DIGITAL ECONOMY IN 2024

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.

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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.

01

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**.

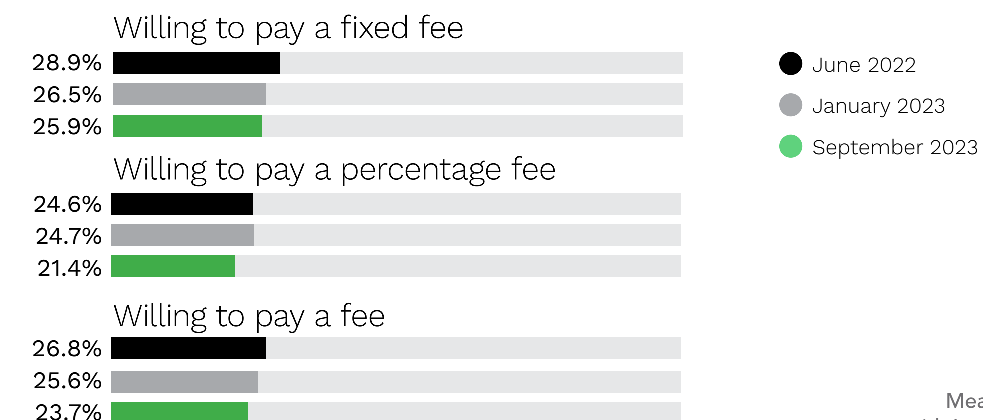
When it comes to payments, getting money instantly to consumers — and particularly to businesses — is the great promise and potential of scaling instant payments. The prevailing wisdom that instant should

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%.

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.

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

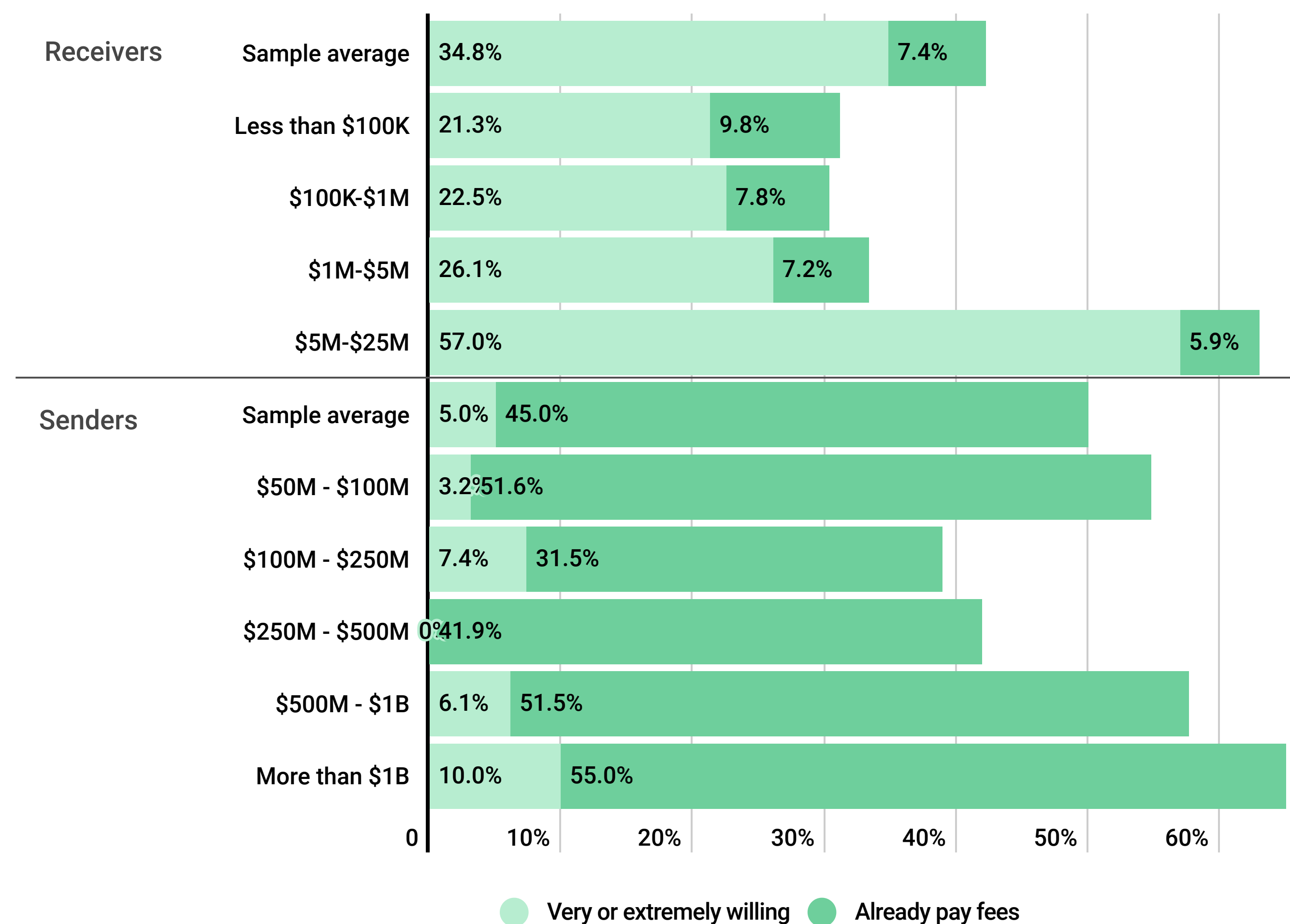


Source: PYMNTS Intelligence
Measuring Consumer Satisfaction with Instant Payouts, November 2023
N = 2,606: Complete responses, fielded Aug. 28, 2023 – Oct. 4, 2023

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.

02

SHOPPING SHIFTS FROM BUYING TO EDITING AS REPLENISHMENT MODELS CHANGE RETAIL DYNAMICS.

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!". 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

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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.

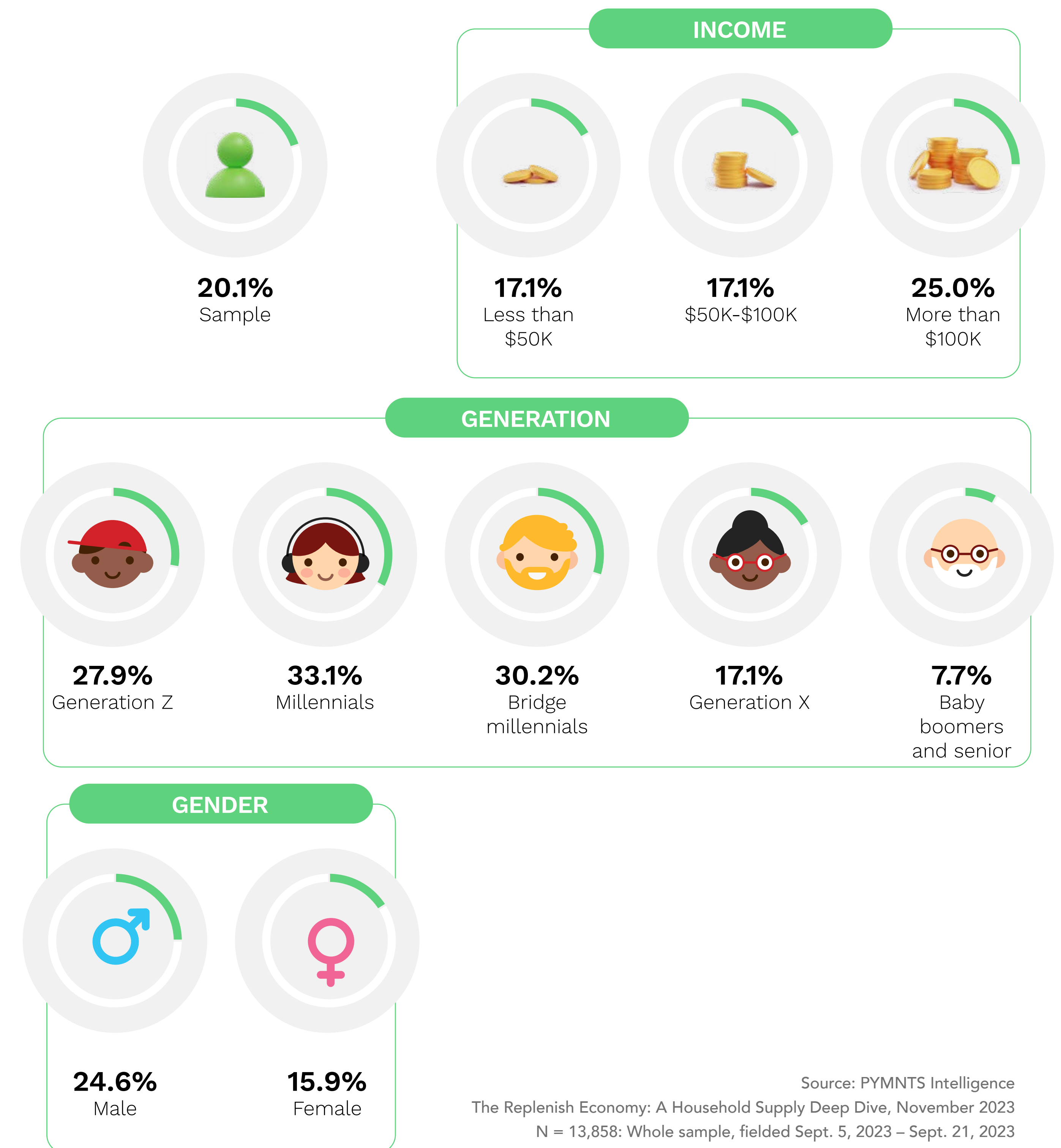
At immediate risk is the $18 billion in monthly spend across all U.S. consumers on essential products like groceries, pet food, like health and beauty supplies, garden supplies, and other odds and ends that consumers use as part of their regular routines. “Stocking up” is now the domain of the replenishment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

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.

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

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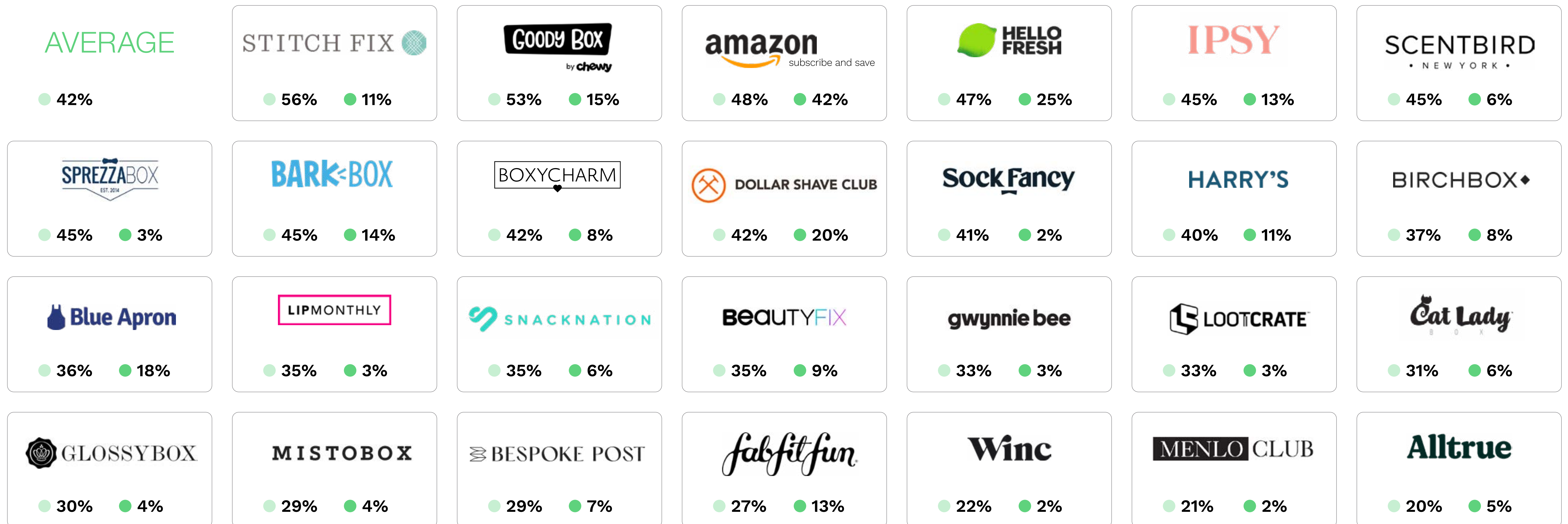
FIGURE 4:

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



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

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.

03

GENAI BECOMES A FEATURE, AND EVERYTHING HAS A CONVERSATIONAL FRONT END.

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.

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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.

04

PLATFORMS GAIN POWER AS POINT SOLUTIONS SEEK DISTRIBUTION, BUSINESSES SAY NO TO "ANOTHER" INTEGRATION AND CONSUMERS CRAVE CURATION.

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

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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.

44%

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.

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05

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.

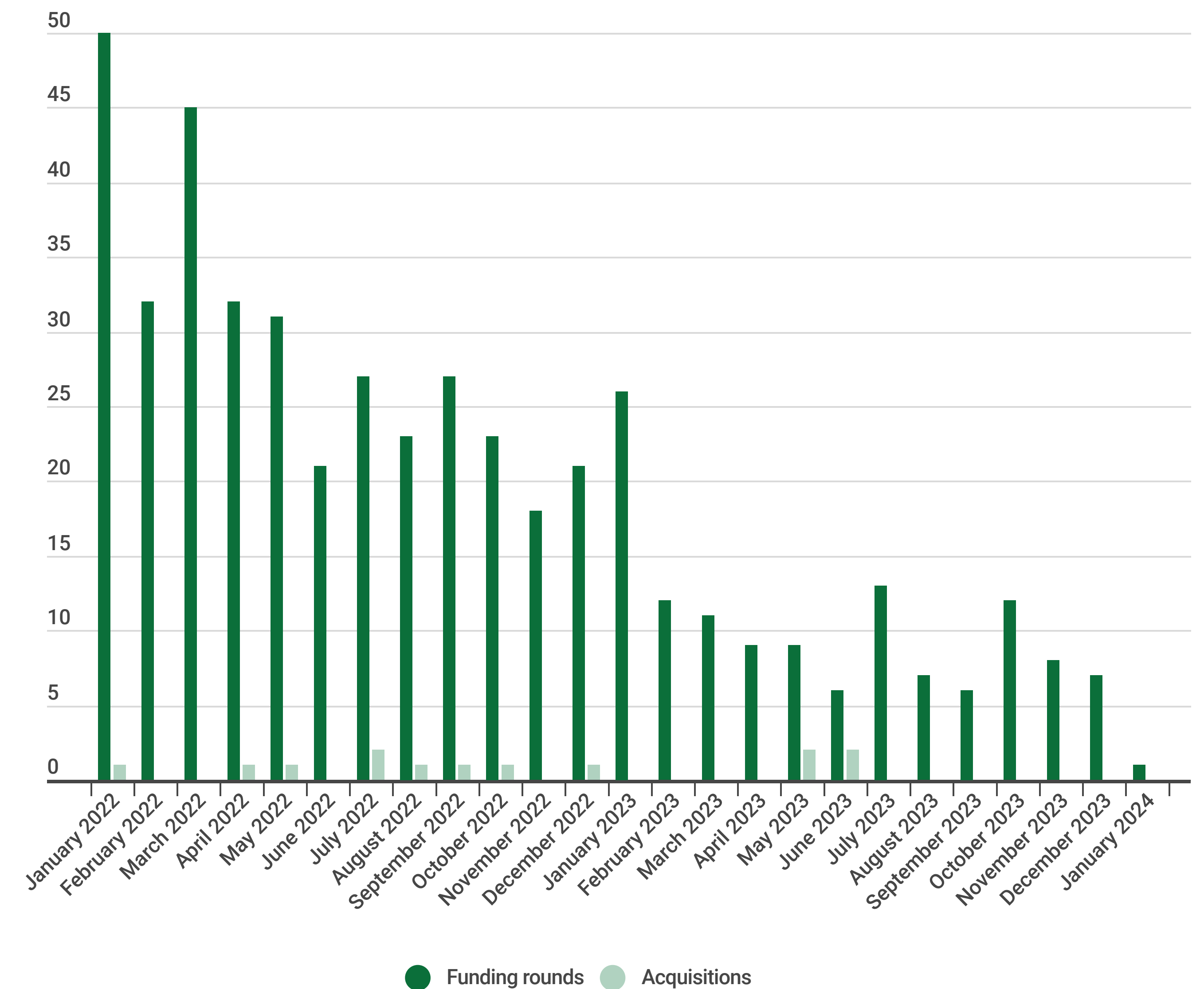
2024 will be the year that serious players use their time, money and resources to solve real problems because they see the opportunity to leapfrog the competition and build an impenetrable moat when they do.

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.

Figure 5: Investments and acquisitions - Metaverse

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



Source: Crunchbase

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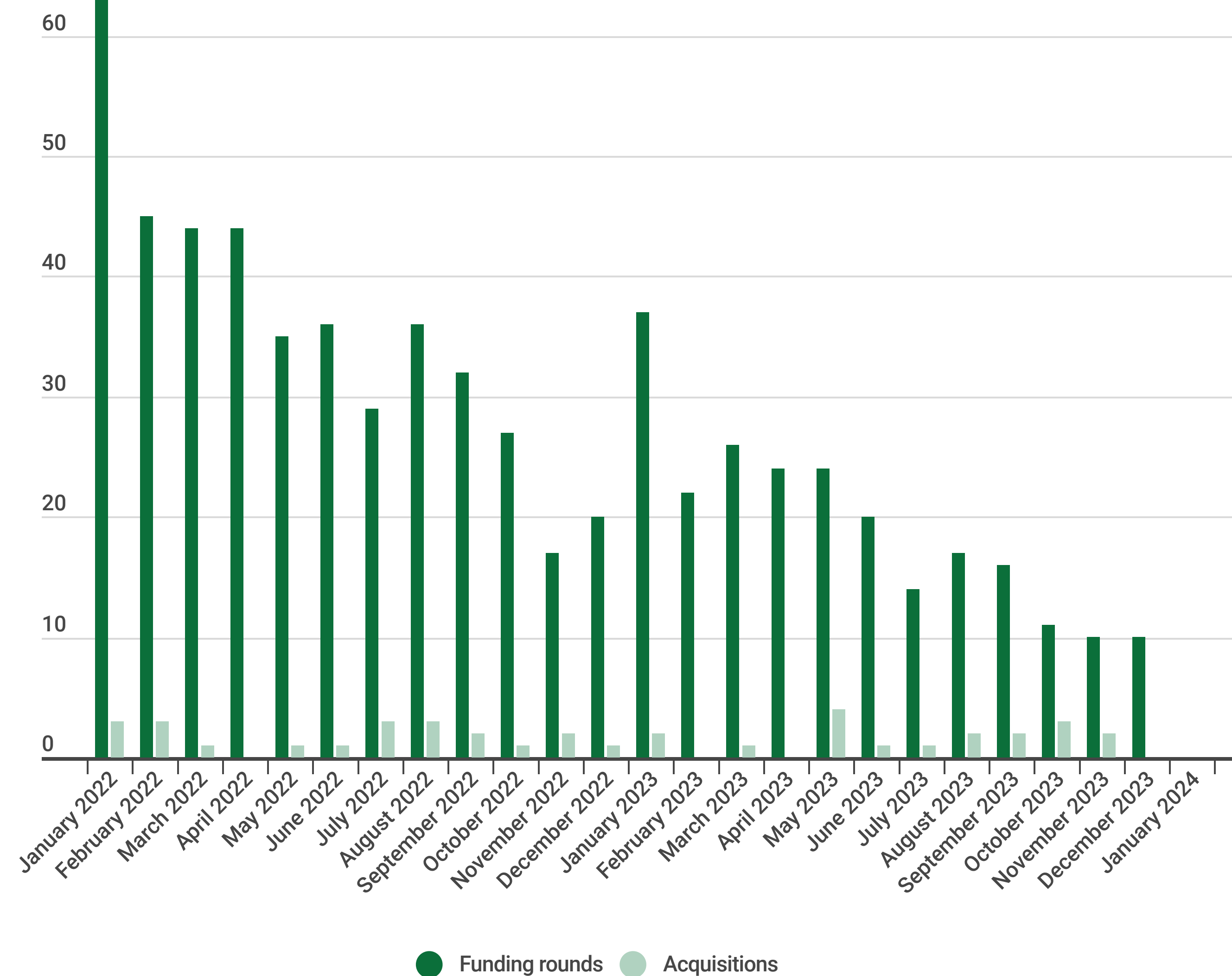
Figure 6: Investments and acquisitions - Crypto

Number of funding rounds and acquisitions in companies related to cryptocurrencies



Source: Crunchbase

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.

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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.

06 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 10 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 out — 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.

07 AI-NATIVE STARTUPS MARGINALIZE THE ROLE OF INCUMBENTS.

You all know the story. Jack McKelvey, part-time glassblower, 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

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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.

08

BRANDS DATE GEN Z, 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%

BOOMERS CONTROL ABOUT $78 TRILLION IN WEALTH ACROSS THE U.S. AND 80% OF ALL OF THE NET WORTH.

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.

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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 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.

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January 22, 2024

CAN ELI LILLY WITH LILLYDIRECT CHANGE THE DELIVERY OF HEALTHCARE?

Trying to get rid of the middleman seems to be a universal business pastime.

Companies spend billions trying to "go direct" to gather first-party data, exert more control over the customer experience and cut out the middleman fees. Investors pour tens of billions into startups with tech to make it easier for brands to open their virtual storefronts, establish a social presence, find customers and make sales without using an intermediary. And regulators and lawmakers spend lots of hours working to break up the middlemen whose aim was to make it easier for buyers and sellers to find each other and do business at scale on a single platform.

Lots of middlemen are valuable, unavoidable — we'd miss them if they were gone. But that doesn't mean companies shouldn't look for the right opportunities to reduce their dependence.

That was what Eli Lilly decided to do. It launched LillyDirect.com on January 4th, 2024, to deliver an end-to-end healthcare experience for patients with one of three chronic disease states: diabetes, migraines, or obesity. Eli Lilly makes prescription medications to treat each of those medical conditions, including a new weight loss drug, Zepbound, which was approved by the FDA in November of 2023 and is an Ozempic competitor.

> Eli Lilly's approach provides insights into **what it takes to really ignite a platform and deliver value to its stakeholders.**

LillyDirect has positioned its portal as the middleman between patients with one of these three medical issues, Eli Lilly's medications and the doctors needed to diagnose the patient and write the scripts.

Except they really can't be. That's probably a good thing.

Their approach provides insights into what it takes to really ignite a platform and deliver value to its stakeholders.

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HOW LILLYDIRECT MADE HISTORY

LillyDirect's debut made headlines as the first pharmaceutical manufacturer to sell its medications direct-to-consumer, even though the industry has been pitching ads directly to consumers since the late 1990s. It was then that the FDA relaxed its advertising restrictions, which until that time only permitted doctors to promote pharmaceutical products to their patients. In 2020, Statista reports that 75% of all TV ad spend came courtesy of the pharma industry; in 2022, the total pharmaceutical ad spend was $8.1 billion. That's up from $550 million in 1996.

Those dollars have delivered a strong ROI for those companies. Some sources say that for every $1 in ad spend, pharmaceutical manufacturers have seen their sales increase by $4.20. Whether that's right or not, it is true that the ads lead to conversations between consumers and doctors to get necessary care, saving themselves and the healthcare industry millions and improving the patient's quality of life.

The real impetus for the launch of LillyDirect seems to be their desire to catch a piece of the **$150 billion weight-loss drug market fueled by the unprecedented success of Ozempic and Wegovy.**

The cornerstone of the LillyDirect strategy is to use the portal to match patients suffering from one of the three chronic diseases they list with doctors in their area for either an in person or telehealth visit. Those doctors will offer an opinion on the patient's condition and even one of Eli Lilly's drugs for their condition if medication is required. The platform also allows patients with an existing script for an Eli Lilly medication to order directly from their digital pharmacy, cutting out the traditional retail pharmacist.

But the real impetus for the launch of LillyDirect seems to be their desire to catch a piece of the $150 billion weight-loss drug market fueled by the unprecedented success of Ozempic and Wegovy. These two Novo-Nordisk weight-loss blockbusters are said to account for 52% of Novo-Nordisk's sales thru Q3 2023, $4.8 billion in Q3 alone. And although Eli Lily and Novo-Nordisk both produce insulin drugs for the treatment of diabetes, Novo has twice as much market share in that category.

Eli Lily's Zepbound is available to patients on the LillyDirect platform — provided they have a prescription from a doctor to get it. Visitors to the portal must complete an online weight-loss assessment before being directed to a list of doctors in their area who will make an independent assessment of their condition. Patients who are given a prescription for Zepbound can fill it and refill it there and have it shipped to their homes.

Therein lies the catch — and the friction. And friction, we know, is what platforms must eliminate, not create.

THE DOCTOR IN THE MIDDLE

Doctors are the most important healthcare middlemen — and the lynchpin for any disruptive healthcare play. Without a doctor there is no diagnosis. Without a diagnosis there is no course of action for a patient, and no prescription medication if needed. Without a prescription there is no opportunity to prescribe Eli Lilly's or any other pharma manufacturer's medication to the patient.

Regulations forbid pharma manufacturers from giving doctors incentives to prescribe their drugs — and that's healthy, pardon the pun. It's also a point that LillyDirect reinforces on their site. Doctors are trusted by their patients to be the independent caretakers of their physical and mental health and, as the Hippocratic Oath says, first, do no harm. Second, don't prescribe unnecessary medication. Third, don't take payments from Big Pharma in exchange for writing scripts.

The LillyDirect portal offers links to partners and platforms that aggregate doctors for both virtual and in person consultations.

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They've partnered with telehealth providers (Cove for migraines, for example) and Healthgrades, which is a yellow-pages directory of doctors founded in 1998 that filters providers near to where a patient lives. Site visitors are taken off the LillyDirect site to those platforms. There, would-be patients must still vet providers and get in touch to make appointments to be treated.

> Connecting patients with doctors directly **isn't something that LillyDirect can do.**

When I poked around the site, I discovered a dog's breakfast list of providers, some 399 doctors near me when I did a hypothetical search for migraine specialists. I found many who didn't seem relevant (e.g., ophthalmologists) and many who had no ratings, pictures or notes were taking new patients. I suppose these directories could be helpful for some, but it didn't seem any better (in fact, a lot worse) than doing a Zocdoc search or using a telehealth platform, including those offered by employer plans, to find a doctor.

Finding a doctor isn't the hard part, though. Getting an appointment is friction. Telehealth can solve some of those issues by providing more flexible options for seeing a healthcare practitioner, particularly for those consumers living in underserved communities or more rural parts of the country. For the medical conditions that LillyDirect addresses, it's hard to see how making a conclusive diagnosis without seeing a patient and getting diagnostic tests is possible — or desirable.

Connecting patients with doctors directly isn't something that LillyDirect can do. It also isn't how the LillyDirect.com portal will make its money.

THE ONLINE PHARMACIST IS READY TO REFILL

LillyDirect says that it can offer better pricing to patients with a prescription for one of their medications. That could be a big benefit — if, in fact, their pricing is more competitive than other online alternatives. It should be, particularly for the drugs that may not be covered by insurance like Zepbound, and where they say payments plans may be available to qualifying patients.

This makes LillyDirect.com more about disrupting the retail pharmacy channel for patients with existing scripts — which is a red ocean — than changing the nature of healthcare delivery.

Unless, of course, the LillyDirect strategy is about using the popularity of GLP-1 weight loss drugs to drive consumers to their site to fill a prescription given to them by a doctor who has prescribed it.

That assumes that consumers know Zepbound as a name brand, that their doctor feels comfortable prescribing it, that they are directed to LillyDirect somehow to get it filled and refilled, and Eli Lilly is the name brand pharma company behind it all.

You know what they say about assumptions.

WHAT'S IN A NAME BRAND?

Taylor Swift is a global brand even though most people don't have a clue who produces her music. James Patterson is a best-selling author even though most people don't know or care who publishes the books he writes. The Martin Scorsese film Killers of the Flower Moon raked in several Golden Globes awards a few weeks back even though most people can't name the movie studio that released Scorsese's latest masterpiece.

The answers, in case you're curious, are Big Machine Records, Hachette and Paramount.

Pfizer and Moderna became household names during the pandemic as the manufacturers of the Covid Vaccines, even though most people would be hard-pressed to name the companies who make the flu shots that went into their arms this past flu season.

Patients may know name brands of the drugs they take regularly because they refill them at the pharmacy — Lipitor for high cholesterol, Eliquis for AFib — but have no idea who makes them. Even those who take

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Ozempic and Wegovy may not make the connection between the brand name of the drug and Novo Nordisk, the pharmaceutical company that manufactures them. Pharmaceutical companies have chosen not to throw their ad dollars at promoting their brand names, but at the names of the drugs they hope consumers will ask their doctors about.

LillyDirect is a cold-start platform that requires their key stakeholders — doctors and patients and insurers over which they have no control nor a direct relationship — to find value and get on board.

Eli Lilly wants to use LillyDirect to turn its brand into a household name — and more specifically wants to use Zepbound as the stalking horse to achieve that. The hope is that Zepbound is to Eli Lilly what Taylor Swift is to Big Machine Records — the big hit that elevates their branded weight-loss product, and that of the company that manufacturers it, beyond the Pharmacy Benefit Managers, doctors and pharmacists who know it today.

That's a big lift, even though the popularity of the weight-loss category is a tailwind.

Some consumer brands — Weight Watchers that bought Sequence and now offers Ozempic by subscription, online weight-loss sites like Ro and Noom that have added Ozempic and Wegovy to their offerings — have existing members as a starting point to sell into. LillyDirect is a cold-start platform that requires their key stakeholders — doctors and patients and insurers over which they have no control nor a direct relationship — to find value and get on board.

Maybe we will see a few Super Bowl ads.

WHAT'S NEXT

Innovating how patients with chronic diseases and doctors find each other to improve the delivery of care is the essence of the connected healthcare ecosystem we see unfolding today. It is a tremendous opportunity for new players and incumbents to use connected devices, AI, technology and payments to disrupt market dynamics and reallocate profit pools. It's one of the five foundational principles of digital transformation that I've been writing about for the last several years.

But I wonder if Eli Lily is the right player to advance that opportunity. Or whether its best shot is as a platform that connects someone else's with a critical mass of doctors or patients to overcome the platform and regulatory impediments that will make ignition a slog.

I wonder whether LillyDirect is **one of those ideas that looks really great in a deck**

I suppose LillyDirect could become an ad supported, AI-driven, souped-up version of WebMD for specific disease states with the addition of content and advertising — but that sure seems like an expensive consolation prize based on the current hype and expectations. Maybe that's the best they can do given the current regulatory environment, especially since there is also no guarantee that the doctors that patients find using their portal will prescribe their medications. Or that patients will want to manage their medications across different online channels.

But I also wonder whether LillyDirect is one of those ideas that looks really great in a deck. You can just see the slide showing how LillyDirect gets all the sides on board and is just like Visa or Amazon or some other successful platform. When the reality is that it can't deliver enough value to its customers to get the virtuous circle going.

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February 29, 2024

WHO USES CREDIT TO BUY GROCERIES? THE ANSWER MIGHT SURPRISE YOU

A couple of weeks ago, more than 123 million people tuned in to watch the Super Bowl. Analysts say that it was the most watched program ever — thanks, in part, to Taylor Swift. Armchair spectators came for the ads and the Super Bowl halftime show while Swifties came with hopes for cutaways to Taylor cheering on Number 87. The football enthusiasts who came for the game watched intently for the outcome of the Super Bowl Coin Toss before the players even took the field.

Football mythology says the winner of the coin toss has an edge in deciding field and receiving preferences, and so more likely to walk away with the Lombardi Trophy. Data would disagree. Of the last 58 Super Bowls, only 27 times did a team win both the coin toss and the NFL Championship.

More than half of the time, to the other side of the coin went the Super Bowl victory, so to speak.

That brings me to grocery shopping, payments and BNPL, where the other side of the coin is an oft-overlooked part of the narrative.

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BNPL'S OTHER SIDE OF THE GROCERY PAYMENTS COIN

The other side of the coin is an idiom originally adapted by W.B. Yeats in 1904 from a 500-year-old military phrase describing the opposite side of the metal badges worn on their uniforms. Today, the "other side of the coin" is shorthand for the opposite side of an issue, topic of conversation or outcome.

It is also a fitting way to frame the conversation about how consumers pay for groceries, and in particular, how they use Buy Now, Pay Later programs when doing that.

Critics, including regulators, decry the consumer's use of Pay-in-Three or -Four plans for grocery shopping. Letting consumers buy food on credit exploits a desperate consumer just to create sales, they say. A consumer who uses credit to buy food, they add, suggests a financially constrained consumer at risk of creating a cascading cycle of debt for consumables.

But what if I told you that nearly a third, 31%, of all U.S. consumers used a traditional credit card to make their latest grocery purchase — including those who used a digital wallet with a credit card registered as their primary funding source? And that share of consumers has remained almost constant since December 2021?

Or that higher-income consumers — those earning over $100,000 a year — were 26% more likely to have used a credit card installment plan than lower-income consumers who used a BNPL provider to buy food?

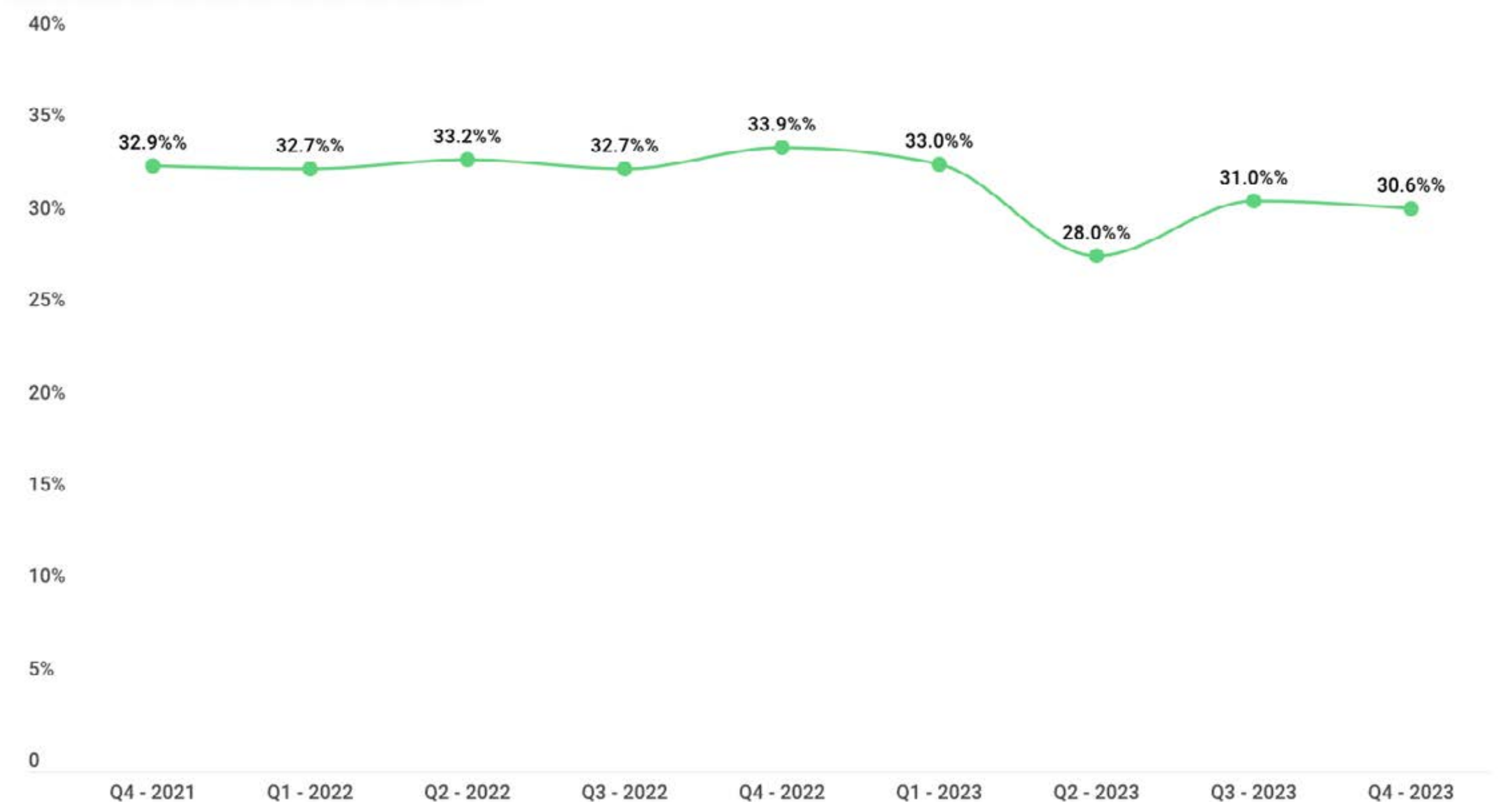
And that only 5.4% of low-income consumers and 6.5% of the population overall used a Buy Now, Pay Later product from a FinTech to pay for groceries in the past year?

In other words, roughly 95% of consumers only paid for their groceries using debit cards, credits cards or cash.

That would make the other side of the coin in the grocery payments conversation something like this:

Four and a half times as many consumers used a credit card in their most recent grocery transaction as the number of consumers who used a BNPL program over the entire year to put food on the table at home.

Share of grocery purchases made with credit cards, including those made with digital wallets and credit cards as underlying payment method



Source: PYMNTS Intelligence
Tracking the Digital Payments Takeover, February 2024
N = 2,165: Consumers who have made select purchases at least one time in the past 30 days, fielded Nov. 14, 2023 – Nov. 26, 2023

Many credit card users take longer than 30 days to pay off their debt and must pay interest. Fed Data finds that 45% of credit card accountholders revolve their balances — balances that might include grocery purchases. BNPL consumers pay for those purchases in three or four installments usually within a four to six week window, sometimes before a consumer using a credit card gets their monthly statement.

When the data does the talking, it's not clear that consumers using this alternative credit product are any different, or using it any differently, than any other consumer who uses a credit card to pay for the groceries in their basket at checkout.

THE DEVIL IN THE GROCERY DATA

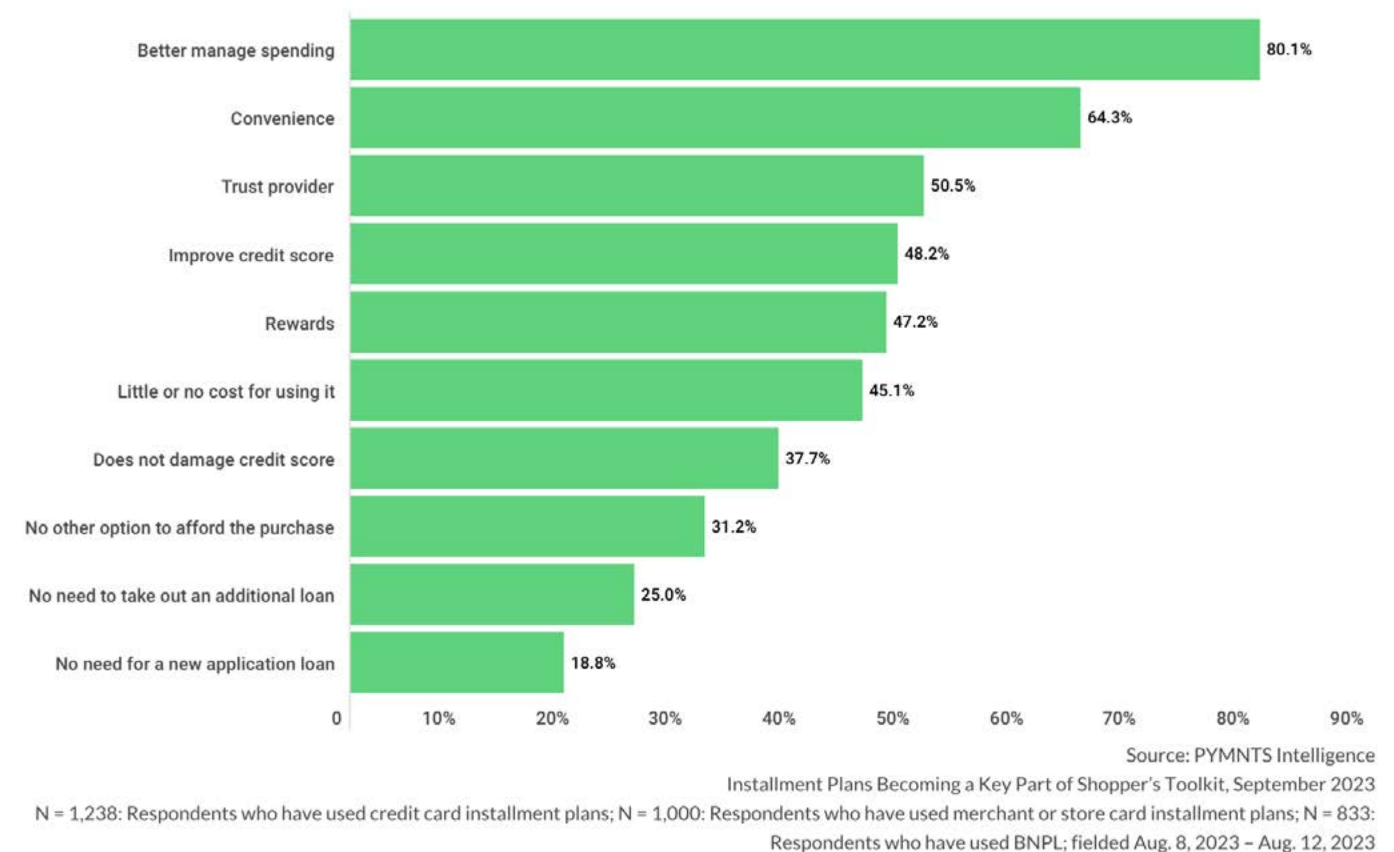
Consumers have probably been using credit cards to pay for groceries for as long as there have been credit cards and acceptance of those cards at grocery stores. We just never talked about it because there was never any reason to make it a topic of conversation.

The line of credit that consumers are given by their issuer lets them purchase whatever they want with it as long as those purchases are in compliance with card network rules. That means that everything from groceries to games to green shirts to gardening supplies and that special trip to the Grenadines can be purchased using credit cards, provided there is an available credit line.

The ability to earn rewards on purchases made on credit cards is an incentive to use them, with 67 percent of consumers citing rewards as a reason to use those cards for grocery purchases, according to PYMNTS Intelligence. That rises to 80% for consumers not living paycheck to paycheck. Part of the appeal of using credit card installment options to pay for any purchase, including food to be eaten at home, is the ability to rack up rewards or cash back for those purchases, with the added value of spreading out payments over time.

Eighty percent of consumers who used any type of installment to make grocery purchases report doing so as a convenient way to manage their monthly spend and pay bills.

Share of consumers citing reasons to use an installment plan in the last 12 months



Source: PYMNTS Intelligence
Installment Plans Becoming a Key Part of Shopper's Toolkit, September 2023
N = 1,238: Respondents who have used credit card installment plans; N = 1,000: Respondents who have used merchant or store card installment plans; N = 833: Respondents who have used BNPL; fielded Aug. 8, 2023 – Aug. 12, 2023

Consolidating everyday spending on a single card for one payment at the end of the month makes it easier for consumers to track, pay and finance, as necessary, while simultaneously earning rewards on those purchases.

Another incentive, consumers say, is the ability to use someone else's money for free for thirty days — 47% of consumers who use any type of credit when buying groceries cite that as a reason they do. That's true for consumers who say they live paycheck to paycheck and those who say they do not.

Consumers who use BNPL get the benefit of spreading grocery payments over three or four installments over a similar four to six week period. Getting the use of the BNPL provider's money, for free, over that period is enough of a reward for many consumers.

Especially when everyone across every income level feels the persistent pinch of food inflation.

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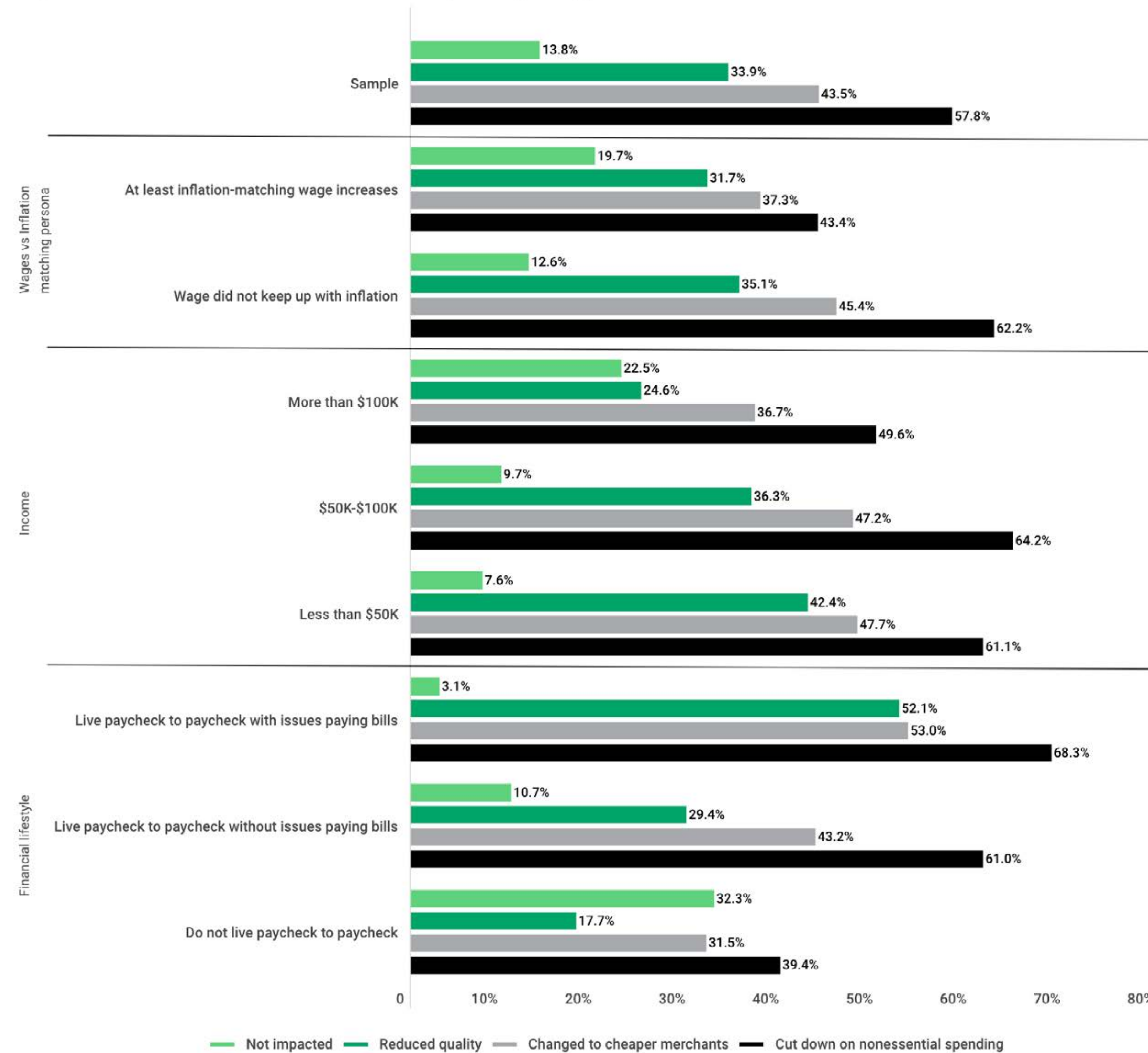
GROCERIES PAID FOR OVER TIME

Even though the monthly rate of inflation has declined dramatically over the last 12 months to roughly 3.1%, overall prices have increased by 18% since January 2021. According to the latest CPI data, the cost of food is 20.9% higher in 2024 than it was in 2020. That's why the crowing about reduction in monthly CPI continues to fall on deaf consumer ears. It's their grocery store receipts that consumers look at when they say their wages have not kept pace with inflation.

According to PYMNTS Intelligence research, consumers across all income levels report cutting back on discretionary purchases or trading down to cheaper brands because of the impact of food inflation on their monthly purchasing power.

Four times more consumers said they cut back on all non-essential spending because of the high cost of food than said they felt no impact. Four in ten consumers who report not living paycheck to paycheck said they cut back on discretionary purchases, too —18% more than said they felt no impact.

Figure 2
Changes in consumers habits due to increases in the price of grocery products



Source: PYMNTS Intelligence
Consumers Spend More Amid Inflation, But Cautiously, February 2024
N = 1,783: Respondents who purchased grocery products in the last 30 days and noticed price changes, fielded Jan. 2, 2024 – Jan. 12, 2024

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Half of consumers earning more than $100,000 said they cut back, too, and more middle income (64%) than lower income (61%) said they had less to spend on anything but the essentials. Many of the paycheck-to-paycheck consumers with issues paying bills (68%) as well as those who say they do and can pay bills (61%) report increasingly making the tradeoff to put food in their grocery shopping carts rather than buying a nice-to-have item they'd want but don't really need.

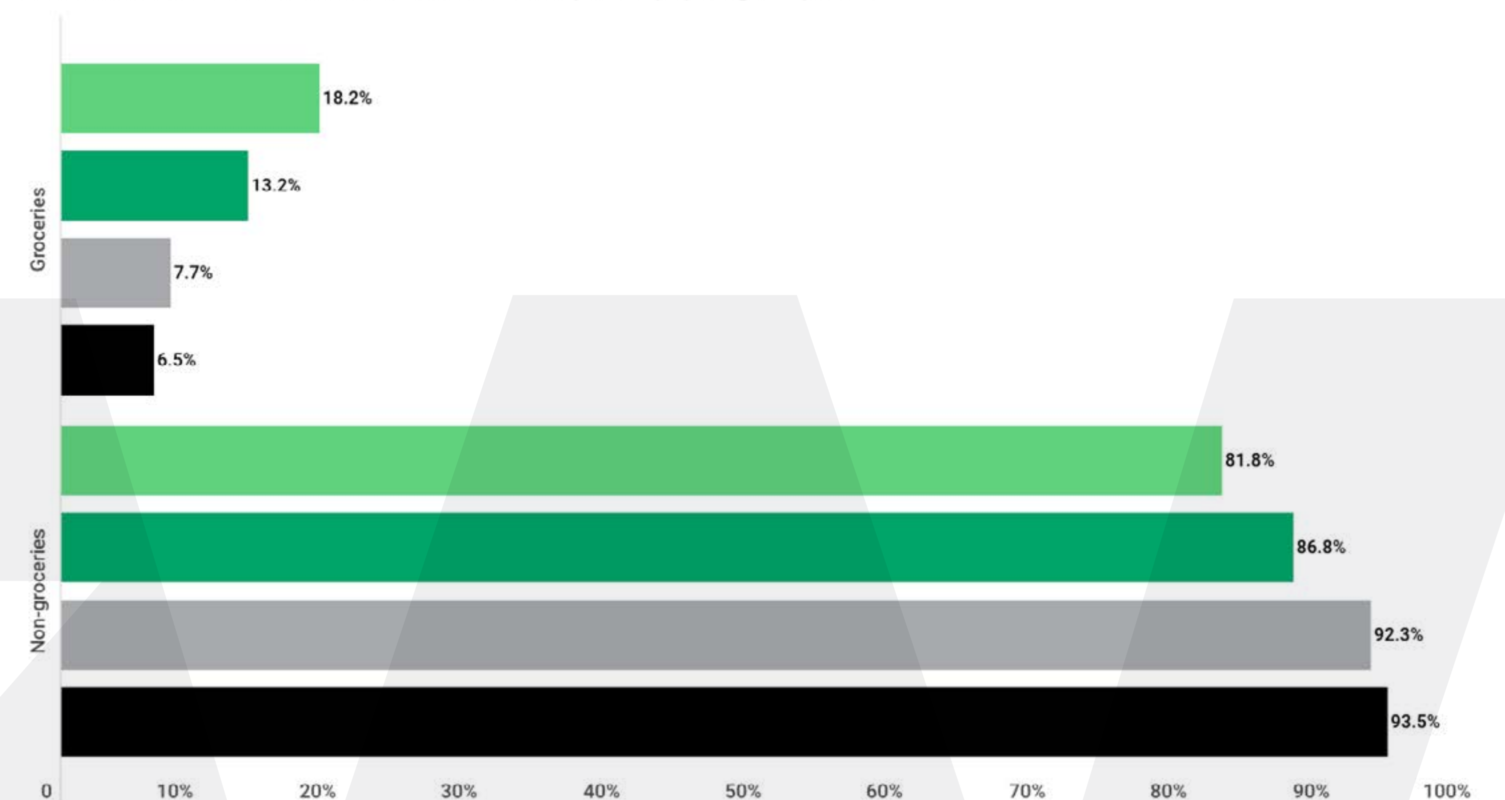
Although BNPL for groceries is scrutinized, data reveals it as part of a broader trend of credit use for essential spending, particularly for those who feel the strongest effects of food inflation. The distinctions between BNPL and traditional credit cards blur when considering their shared role in facilitating consumer spending amidst challenging economic times.

THE OTHER SIDE OF THE BNPL GROCERY COIN

Although the motivations driving the use of any form of credit at the grocery store may be different, the data shows that the value provided to consumers is similar. Today, there are just different credit products that consumers without access to as many credit options can use, responsibly, and pay in full over roughly the same period as a credit card user who pays their balance in full.

Many of those options have been introduced by FinTechs who have since expanded acceptance of their credit option to any merchant that accepts Visa or Mastercard. Virtual debit cards give BNPL users an opportunity to turn any qualifying purchase into a Pay-in-Three or -Four payment plan. That is how and why splitting grocery store purchases over equal monthly installments became a popular BNPL use case.

Yet as popular as BNPL has become, the incidence rate of consumers using those products remains quite low.



PYMNTS Intelligence data finds only 15 million people, 6.5% of the U.S. population, report using BNPL to pay for groceries in the last 12 months to manage their weekly and monthly food spending.

A tiny portion of all grocery shoppers and adult consumers.

The relevant question, then, is whether there is any difference between a consumer using a BNPL product to split a $350 grocery purchase in three or four installments and a consumer who puts a $350 grocery basket from Whole Foods on a credit card to pay in full 30 days later.

The data seems to suggest that BNPL is simply a modern adaptation of credit in the evolving landscape of consumer finance.

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March 11, 2024

WHY THE CREDIT CARD COMPETITION ACT WON'T LOWER MERCHANT INTERCHANGE FEES

In 1955, the island nation of Borneo was in the throes of a serious malaria virus outbreak. It turned to The World Health Organization for help. WHO recommended spraying massive amounts of DDT across the island to kill the mosquitos that carried the disease. Borneo sprayed. Mosquitos died. Malaria cases fell dramatically.

Soon thereafter, so did the thatched roofs of the houses people lived in. It turns out, DDT also killed the insects that ate the caterpillars that spent most of their day munching on roof thatching.

Then there were the rats.

DDT's collateral damage spread to the food supply that poisoned most of Borneo's cat population. Since the cats ate the rats that seemed impervious to the chemical, the island soon became overrun with them. That drove island-wide outbreaks of typhus and the plague and made island residents deathly ill.

Five years later in 1960, Borneo again asked for help to control the rat infestation. This time it was the U.K.'s Royal Air Force to the rescue. They parachuted 14,000 cats, packaged into little crates, onto the island to eat the rats in the hopes of restoring the island to its rightful ecological equilibrium.

This is a true story.

Operation Cat Drop, as the operation was dubbed, had its many critics. The images, like this one courtesy of Anifex, made light of the seriousness of the situation – and the seemingly Rube Goldberg-like solution that apparently only 14,000 flying cats could fix.

It is also one of the more extreme examples of what can happen when actions taken by those in positions of authority "for the good of the people" backfire when they fail to contemplate the downstream effects — the unintended consequences — of their recommendations.

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OPERATION CREDIT CARD INTERCHANGE BACKFIRE

I am certain I'd have no trouble finding people from across the payments ecosystem to fund the purchase and transport of 14,000 cats — if airdropping them on Capitol Hill would derail Senator Durbin's Credit Card Competition Act, aka CCCA.

For those in and around payments, the CCCA is the pending bipartisan piece of legislation that purports to create a more competitive credit card playing field. The bill's intention is to drive interchange fees down by letting merchants choose which network rails they use to route credit card transactions — under the assumption that they will pick the lowest-cost option. Merchants and merchant associations like the NRF and The National Association of Convenience Stores have heavily lobbied Sen. Durbin to write the bill and encourage bipartisan support to pass it.

The bill itself is short. It has essentially no details about how this would work in practice. If you have three minutes, you can read the legislation here. If you have five minutes, it's worth glancing at Sen. Durbin's Cliff's Notes version here.

> I believe the CCCA is based on a flawed argument rooted in a **lack of understanding of how the credit card system functions in the U.S. today.**

Like me and everyone else who reads the CCCA bill, you probably have a lot of questions about how it will work. Don't sweat the small stuff, though — if passed, the payments ecosystem will have one whole year to figure out how it will work and implement new rules, processes and procedures to support it.

Unsurprisingly, payments lobbyists have been out in full force, all guns blazing, taking a whack at the legislation and its impact on credit card rewards if passed. That seems to have met with a collective lawmaker yawn, seen as the predictable response by big banks and card networks whose only interest is to "stick it to the merchants," they believe.

I've been thinking about this a lot recently since it has become such a hot topic of conversation. Like many, I believe the CCCA is based on a flawed argument rooted in a lack of understanding of how the credit card system functions in the U.S. today — and a belief that merchants, not consumers, know best.

Unlike many, I don't think the CCCA will reduce interchange at all — or if it does, by maybe an unnoticeable smidge.

In fact, it may even increase it.

On second thought, we might not need the cats.

AMEX TO THE RESCUE?

The bill, as written, is almost sanctimonious in its claim that the current card networks, Visa and Mastercard, have too much power. The intent of the bill is to force big banks to issue cards that have an alternative credit card network on the front or back of the card so that merchants can decide over whose credit card rails they route the shopper's payment. The hitch is that issuers can't put Mastercard on their Visa cards — or vice versa. But they can opt for one of the current three-party alternatives. There's Discover and Amex.

The intention, as I mentioned, is to force Visa and Mastercard to lower interchange and network fees because they will have to compete for volume with an alternative network. But that assumes that issuers would default to putting Discover on their cards, which has lower merchant discounts (the equivalent of the interchange fee and network fee for the four-party systems.)

But why would big banks do that?

Any issuer that chooses to put Discover on their cards is making a conscious decision to cut into the credit card rewards that consumers know and love, and drive top-of-wallet status for them.

So, if I am an issuer thinking strategically, I'm on Zoom calls with Amex to negotiate a higher interchange fee that will allow me

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to support consumer rewards at the levels they are now. Otherwise, they could threaten to put Discover on the card.

Then guess what would happen?

For Discover to be a competitive option for banks, they, too, would have to bid up interchange fees for issuers.

Who knows, maybe the reason that Capital One is trying to buy Discover is to capture more interchange fee revenue for the cards going over the Discover network by raising merchant fees.

Here's another thought: The CCCA bill, which is an ode to three-party networks (but really Discover, since Amex is even more expensive for merchants than Mastercard and Visa), could give rise to even more of them in the U.S.

There is a short list of providers who have both issuing and acquiring, and those include the big banks. Who's to say that one of them couldn't emerge as a contender with their own network to be considered that competitive alternative? And they would bid to have banks issue their third-party card in addition to Mastercard or Visa.

The effect on the merchant community **may be the direct opposite of what Sen. Durbin and his CCCA legislation intended.**

Notwithstanding a lack of understanding of how dual routing would work for credit card transactions, the flaw in Sen. Durbin's bill is a lack of understanding of how the current credit card ecosystem works. And, more fundamentally, how platform ecosystems ignite and scale — and are monetized.

Starting with the small detail that Amex and Discover aren't really three-party networks.

Both allow banks to issue their card products — there just hasn't been much of an appetite for banks to do that. But Katie, bar the door now.

If passed as currently proposed, the effect on the merchant community may be the direct opposite of what Sen. Durbin and his CCCA legislation intended.

WHAT HAPPENED TO CONSUMER CHOICE?

Although the Administration, Congress and CFPB are all very concerned with consumer choice, their voices have been surprisingly muted on this bill.

Let's say that issuers choose to cut into their own fee income and put a low interchange alternative on the back of their cards — basically issuing all of their cardholders a Discover card. There will be a material hit to card rewards — and that will have a noticeable effect on consumer spending and wellbeing.

It is also flawed thinking that merchants will re-allocate their interchange fee savings to consumer promotions and rewards, if past is prologue.

Research in the aftermath of the first Durbin reduction to debit interchange finds that merchants didn't — and if they did, the savings were so insignificant as to be imperceptible to consumers. Home Depot even admitted in a 2011 earnings call that they realized a $35 million net margin increase from interchange fee savings after pledging to reallocate those savings to consumers.

It is flawed thinking that merchants will **re-allocate their interchange fee savings to consumer promotions and rewards.**

However, consumers did pay more to keep their checking accounts at the banks that issued their debit cards, and to support other value-added services related to those accounts.

But these arguments are familiar and well-trodden.

One that isn't: the CCCA, if successfully passed, would create potentially enormous confusion for the consumer at the point of sale.

It is crazier than it seems at first glance.

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WAIT, I THOUGHT I HAD A MASTERCARD FROM CITI?

Dual network routing for credit card transactions is a very different animal than dual network routing for debit. Debit transactions pull money out of a checking account. Processing a credit card transaction is about managing risk, extending credit and managing issuer balance sheets using a network that supports the issuer who underwrites the risk and establishes a credit line for that consumer.

That means that a consumer with a Visa or Mastercard — issued by a bank they know and trust — signed up for a card with a rewards program that suits their needs, a line of credit they know, and an interest rate on balances that they understand. When they present their card at the virtual or physical point of sale, their expectation is for those card program attributes to be honored as agreed. If there is fraud, they know who to call. If there is a dispute, they know who to call. When they get their statement, those transactions are easy to see and understand; their bills are easy to pay.

The CCCA would create potentially **enormous confusion for the consumer at the point of sale.**

When merchants get to decide the network rail that processes the transaction, it is unclear how any of this will work.

Will the consumer have to be underwritten for credit by the alternative network? If so, will they have a different credit line and interest rate? Does the consumer have to agree to those terms for the bank to issue a card with an alternative logo on that card? What if they don't?

Will all issuers and networks be forced to accept all consumers from the alternative network? If a consumer has a Mastercard from one issuer that chooses to add Amex as the second network, does Amex have to match interest rates and credit lines for that consumer? Can they say no?

And since this is all on a single card, when a consumer presents that credential at the virtual or physical point of sale, when will the consumer know what the implications of that transaction routing are? Did the merchant choose the card with the higher interest rate or one where the consumer was close to their credit limit and could be declined? Who is responsible if there is fraud or a false decline?

Oh, I forgot. The industry has 12 months to figure that out.

As written, the bill takes all these decisions out of the consumer's hands to let the merchant decide what's best for the consumer, based on what's best for their bottom line.

It's no different than ordering Skippy peanut butter from a grocery store online and being given a store brand for the same price because it buffs the merchant's balance sheet.

Well, at least GenAI can help make bank call centers more efficient, since they will be flooded with calls from confused consumers if CCCA becomes the law.

BRING IN THE SURCHARGES AND FRICTION

The CCCA is coming while merchants are using a variety of tactics to shift more of their costs of doing business onto consumers, often in sketchy ways.

Merchants can add fees to cover the cost of payments processing in all but two U.S. states now, even as many states have implemented caps on the amount charged. It is speculated that merchants will increase their use of surcharging regardless of the CCCA's outcome.

According to PYMNTS Intelligence data, half of consumers surveyed in March of 2022 said they recall paying a surcharge to cover credit card fees. In that same survey, half of consumers who paid a fee said they would switch to a merchant that didn't charge one — so consumers may have paid it once but were unwilling to pay it twice.

Only one in ten consumers who never paid a surcharge — or remembered doing so — said they would be willing to pay a surcharge at a merchant, which means nearly all say they would not.

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At the same time, there has been a noticeable increase in tip options at the point of sale in places where the service element of the customer experience is questionable. Fast food, grocery and convenience stores have become notorious over the last several years for forcing tips on transactions for which the only "service" is ringing up the items and putting them in a bag. Processors make it easy to add a tip option on the checkout screen, so why not?

Consumers don't like it.

> It seems odd that merchants seem so willing to introduce friction at the point of sale for their own benefit, **particularly when consumers are more interested in their own balance sheets than those of the merchants they shop.**

More than third of consumers surveyed by PYMNTS Intelligence in October of 2023 say that the pressure to tip in these situations has gotten out of hand. Thirty percent of consumers recalled being asked to tip at retail and convenience stores, twenty percent at self-checkout. Nearly all consumers say that being asked to tip where there is no tip precedent is never acceptable, with 65% saying they will find alternatives rather than be pressured to add another 10 to 15% tax to their transaction.

Surcharging can only work if all merchants do it. The consumer's willingness to pay weighs heavily on those decisions, which is why most merchants don't. It seems only a matter of time before forced tipping in the absence of service will be marginalized if merchants want the pitter patter of consumer feet in their stores.

OPERATION INTERCHANGE FAIL

It seems odd that a CFPB so focused on junk fees hasn't expanded their definition to include one or both of these merchant-directed items.

It also seems odd that merchants seem so willing to introduce friction at the point of sale for their own benefit, particularly when consumers are more interested in their own balance sheets right now than those of the merchants they shop.

I predict that the CCCA will collapse under its own weight for some of the reasons I pointed out, and the many more that a deeper look under the hood will uncover. People in payments who know the industry, know networks and know credit know that this is an unworkable idea.

Just as Borneo discovered around the same time that the four-party model was introduced in the U.S., what may look good at the time creates years of chaos that can be hard to recover from. As I write this, the CCCA legislation has not been reintroduced. With any luck, it stays that way.

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March 18, 2024

THE APPLE PAY THREAT FACING BANKS

A friend was preparing for a once-in-a-lifetime yoga retreat to a fancy resort in Malaysia. The trip was a long one with stopovers in Qatar and two days in Kuala Lumpur. The tour guide suggested that she put her debit and credit cards from her physical wallet into her Apple Pay wallet to keep them safe. In the event her purse or wallet was stolen, she could easily cancel cards and have them reissued virtually on her phone, they told her, and she would be able to use her Apple Pay wallet to pay. As a long-time iPhone and occasional Apple Pay user, the idea never occurred to her. Now all the cards she uses frequently are organized inside of her Apple Pay wallet for use on that trip — and everywhere else once she returns.

It took me less than five minutes this weekend to do the same thing. Until then, my Apple Pay Wallet included only my Apple Card and my Apple Cash card. Out of curiously, I checked my transaction history using Apple Pay over the last few years, since I felt instinctively my use of it had increased.

In 2021, I had 37 Apple Pay transactions; in 2022 I had 40. In 2023, I had 119 transactions — and so far in Jan and Feb of 2024, I have completed nearly half the number of all my 2023 transactions combined. My use of Apple Pay is exclusively in-app and, until this weekend, using my Apple Card.

The increase in use comes at the expense of PayPal and my bank account as funding sources — and as card on file at merchants I now shop using their app. There are exceptions like when I shop on Amazon, at department stores where I use my store card for rewards, and when I shop using my laptop.

> My increased use of Apple Pay **reflects a shift in how and where I shop.**

But as my transaction history suggests, my increased use of Apple Pay reflects a shift in how and where I shop, which is increasingly using my phone/tablet and apps. Two clicks on the side of the phone and the transaction is done. Paying my Apple Card bill is easy inside the Wallet.

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Now, with the addition of my oft-used cards, I have payments choice before I double click. That might have the effect of reducing my use of the Apple Card, but probably not my use of the Apple Wallet when I am shopping in an app on my mobile device when it is available.

It's not just me.

Digital wallets are how consumers seem to want to manage the everyday transactional parts of their lives — how they pay, who they pay, how much they spend, and how much they have left to spend. It's one of the reasons so many consumers gravitate to the everyday app concept. According to PYMNTS Intelligence, three quarters of consumers say they want the convenience and simplicity of such an experience. Their bank is on the list of providers they trust to do that, but not at the top.

Aggregators, whether it is a platform like Amazon or Instacart or DoorDash or OpenTable, generally offer the one-stop experience with a number of choices and an end-to-end transactional experience. Digital wallets can play a similar role for consumers across the payments and banking spectrum. Apple Pay's integration creates a sticky behavior that increases usage and can drive preference. Consumers don't see their banks as being that aggregator, at least not now. A typical bank mobile and web app, even with Zelle integrated into it, doesn't make it easy to do what Apple Pay does on the iPhone.

This behavior is a sobering reality for issuers that risk becoming invisible inside of a Big Tech digital intermediary whose branding is front and center for the consumer when checking out. Banks will probably have to pay more when consumers use their cards in that wallet. Apple Pay may charge them more as they face pressure to raise revenue in the face of slumping iPhone sales. Or because they must spend more to drive top-of-wallet preference in that wallet. That will be increasingly true as more transactions move to mobile devices — and especially to iPhones, which will capture the bulk of the spending in the U.S. and other developed countries.

THE SAME DIGITAL WALLET STORY, BUT WITH A DIFFERENCE

The friction between banks and digital wallet intermediaries is nothing new.

PayPal rubbed the issuers and card networks the wrong way once it started to get traction, and rubbed users the wrong way when it made adding forms of payment other than a bank account a friction-filled experience. It would take until 2016 for PayPal, card networks and issuers to find common ground and make choice an easier and more visible option for consumers using the PayPal wallet. That decision helped to drive the growth and expansion of PayPal as an online digital option at checkout over the next several years and more volume on issuers' cards stored in it.

Apple Pay will celebrate its tenth birthday in about six months. It's a mobile payments intermediary that issuers weren't all that enthusiastic about in 2014, given the Apple Pay tax levied on every transaction initiated in the wallet. Since Apple Pay at that time was mostly to be used in stores, and in-store use was (and still is) nascent, there didn't seem to be much collateral damage.

> **Apple Pay has become a more material potential competitor to the banks** as more transactions move in-app and on mobile phones and tablets.

Apple Pay is a different digital intermediary now even though the overall use of the Apple Pay Wallet in the U.S. remains small. It has its own credit card in that wallet and offers an integrated Pay Later option at checkout. The user experience is slick, and managing transactions is easy. Cash back on purchases is automatically deposited to the Apple Cash card, which can be spent or transferred to a bank account. Integration with messaging makes P2P payments just like sending a text.

It is becoming the aggregator for virtual cards that consumers have in their physical wallets today or get from brands that aren't their bank, including those issued by brands that are not a bank.

Apple now offers a high-yield savings account on balances of up to $1 million as a feature in its wallet. It has a disproportionate share of high earners as iPhone customers here in the U.S. and, by extension, those who drive spend using that wallet and the cards in it. According to PYMNTS Intelligence, 54% of Apple Pay Users earn more than $100,000 a year and nearly half (45%) of iPhone users do.

A digital wallet that was more or less a dud at the physical checkout in the store for most of its post-launch life, Apple Pay has become a more material potential competitor to the banks as more transactions move in-app and on mobile phones and tablets — with Apple Pay offered as a friction-free alternative to checking out. And Apple adds new banking and payments features to create more utility for its users when transacting in app, as it will surely do.

Those use cases might extend to a reinvention of how consumers check out in store, Apple's initial payments target, which has been slow to gain momentum.

One of the biggest innovations for physical checkout is to replicate the digital experience for consumers who are standing inside of a store. The Click-and-Mortar™ shopper is here to stay, as PYMNTS Intelligence research, done in collaboration with Visa Acceptance, shows. Click-and-Mortar™ shoppers are the fastest-growing shopping segment worldwide, as consumers see the store as just another place to use their mobile devices to shop and pay. Customer satisfaction is higher with merchants who offer such an experience — and with satisfaction comes preference, and with preference comes more sales. Digital wallets, with payments choice, can be a bridge to the reinvented checkout experience. Whose digital wallet depends on who can deliver the better experience.

Maybe this is where banks and merchants could find common digital wallet ground.

THE DIGITAL WALLET PRISONER'S DILEMMA

Stay with me. There is a point to this anecdote.

Sam Bankman Fried's sentencing for his role in the collapse of FTX is set for March 28th. Last week, we heard prosecutors argue for a 40-to-50-year sentence at the same time SBF's defense team said 5 to 6 years should be the max. The three closest FTX colleagues who testified against their former boss will be sentenced later. Each of them made the decision, independently, to plead guilty and cooperate with the government in hope of a more lenient sentence.

> The prisoner's dilemma is the essence of decisions **that impact business outcomes — often in material ways**.

They did so even though each could have pleaded not guilty with the hope that their group silence would make it tough for the prosecutors to win. The prisoner's dilemma a year ago was whether to gamble that one of them would spill the beans in the hopes of a reduced sentence or hope that everyone would hang tough and maybe get little to no jail time.

The prisoner's dilemma dynamic is evident in business almost every day even though we don't call it that, and the outcome isn't about whether anyone will serve time behind bars. But it is the essence of decisions that impact business outcomes — often in material ways.

A prisoner's dilemma is about deciding whether it is more advantageous to just follow one's self interest or collaborate with an adversary to achieve a better outcome. In a very connected digital economy, where competition and cooperation now define business, these scenarios have become more the rule than the exception.

It's also a fitting way to describe the dynamic now between banks and digital wallets, and in particular Apple Pay.

The issue for banks, and the biggest ones with the largest card bases, is how to become more than just a feature in a wallet where they don't control the experience, the acceptance or the cost to them of a consumer using it.

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These decisions are being weighed while Apple is under pressure to boost revenues as iPhone sales globally fall and competitive (and geopolitical) pressures in China increase. This Bloomberg article suggests Apple is less like a Big Tech innovator and more like a value stock, citing Coca Cola as a relevant comparison. The writer says its lack of AI chops is to blame. The bigger point is that Apple has been largely unsuccessful at bringing a slew of blockbuster products to market under Tim Cook's reign.

So, all attention is focused on Services revenue now to drive revenues and margin. Apple Pay transactions are very likely in the consideration set of assets for Cupertino to monetize in new ways.

Banks, of course, know this. The big banks behind Zelle have banded together to create a bank-only competitor, Paze, as a digital wallet alternative to Apple Pay. It has little chance of being a competitor or getting any traction for all the reasons I outlined when it first launched.

We witnessed the challenges of getting a bank-operated payments consortia to scale in the U.S. with real-time payments and TCH. Business model failures hindered ubiquitous acceptance, coupled with a lack of clarity on use cases that would create the adoption and usage to get a flywheel going. The very adversaries that TCH was intended to unseat, the card networks, have only become stronger real-time competitors with push-to-card options that deliver a streamlined and ubiquitous consumer experience and consumer preference. If we think that getting real-time, account to account payments to ignite in the U.S. was challenging, which we are still working to do, just sit back and watch how painful it will be for Paze to try and do the same.

FRIEND, FOE OR SOMEWHERE IN BETWEEN

Deciding what's in the self-interest of banks, especially the biggest ones, when it comes to their digital wallet strategy is more complicated than it was when Apple Pay first launched.

Consumer preferences have changed, and Apple Pay seems to have momentum in-app. Apple also has an incentive to figure out how to make more high earners stickier, and to be the aggregator of the payments and transactional banking elements that consumers value in order to bolster its own bottom line. Almost anything could be in play.

> Apple has an incentive to figure out how to be the aggregator of the **payments and transactional banking elements that consumers value.**

At the same time, Apple is only half of the smartphone population in the U.S. — and even smaller globally — at a time when the smartphone landscape is going through its own digital transformation. GenAI will usher in a new generation of devices and operating systems; Open AI and ex-Apple iPhone visionary Jony Ive is working on such a device now. So is Google. Commerce and payments will move to a more distributed network of devices that are voice-activated and where smartphones and apps may be the receivers, and not the initiators, of transactions. Amazon isn't going to sit back and watch the GenAI commerce train pass it by either.

The same banks that helped build Apple Pay success now find Apple to be the gatekeeper for the use of their cards inside of it.

In that world, determining who's the real adversary won't be that easy. Neither is figuring out whether a collaborator today may be an adversary in the future. Apple faces many of the same decisions in its core business. Just today, we read that they are contemplating a partnership with Google to license its Gemini product to fast track its own AI capabilities.

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March 25, 2024

WILL WALMART'S 'WALMARCHE' STRATEGY LURE HIGH-INCOME SHOPPERS?

Last Saturday (March 23), legendary fashion designer Diane Von Furstenberg made her exclusive collection of 200 clothing, baby and household items available for shoppers to buy at Target. DVF, who will celebrate the 50th anniversary of her iconic wrap dress this year, said her interest in the collaboration was to make her pieces more accessible to every woman.

Most items carry a price tag ranging from $5 to $50, even though some items sell for two to five times more. Fashion influencers helped drive awareness and demand at the launch.

The exclusive DVF collection is the latest in Target's 25-year history of exclusive collaborations with celebrated designers, starting with Michael Graves in 1999. Target claims more than 175 such partnerships that give consumers affordable access to designer collections they can't get anywhere else.

Target's online and in-store shopper base is an attractive brand awareness, marketing and product distribution engine for designers such as Alexander McQueen, Lily Pulitzer, Missoni and Jason Wu, who usually only sell in higher-end retail outlets and their own D2C channels. For those who have been out of the designer fashion limelight for some time, it is an opportunity for a brand revival and refresh.

For Target, it's a way to pay off its "expect more, pay less" brand proposition and amplify the "Tarjay" moniker coined by shoppers who like the idea of buying upscale designer products without the upscale designer price tags.

It's a playbook that Walmart has apparently been studying and is now rolling out at 800 stores — a strategy to turn Walmart's physical stores into "Walmarche" one duck breast, pair of cargo pants and Bobby Flay Steak takeout meal at a time.

Maybe there'll even be a Walmoi app for Walmarche shoppers.

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PARLEZ-VOUS WALMARCHE?

As reported by Bloomberg last week, Walmart will pilot a new merchandise mix and fancier displays aimed at high-income hipsters looking for cool stuff much cheaper inside those 800 Walmart brick-and-mortar stores. The article says private-label clothing items such as blazers and cargo pants, influenced by upscale designers like Brandon Maxwell, are more fashionably displayed inside of those stores. High-end branded grocery products and meat selections one might consider designer (e.g. duck breasts) are not only available, but reportedly selling for less than at rival grocers.

Walmart has also leased space in a limited number of locations to Marc Lore's Wonder, a "fast fine" operation that serves high-end takeout using celebrity chef brands like Bobby Flay Steak.

Lore is the Jet.com founder who sold his eComm business to Walmart for $3.3 billion in 2016. Walmart unwound it in March of 2020 due to its lackluster performance. This isn't the first time Walmart has tried restaurants in its stores. Its first was a ghost kitchen, with Kitchen United featuring multi-restaurant brands, shuttered in 2023 after two years in operation. We Wonder if things will be different.

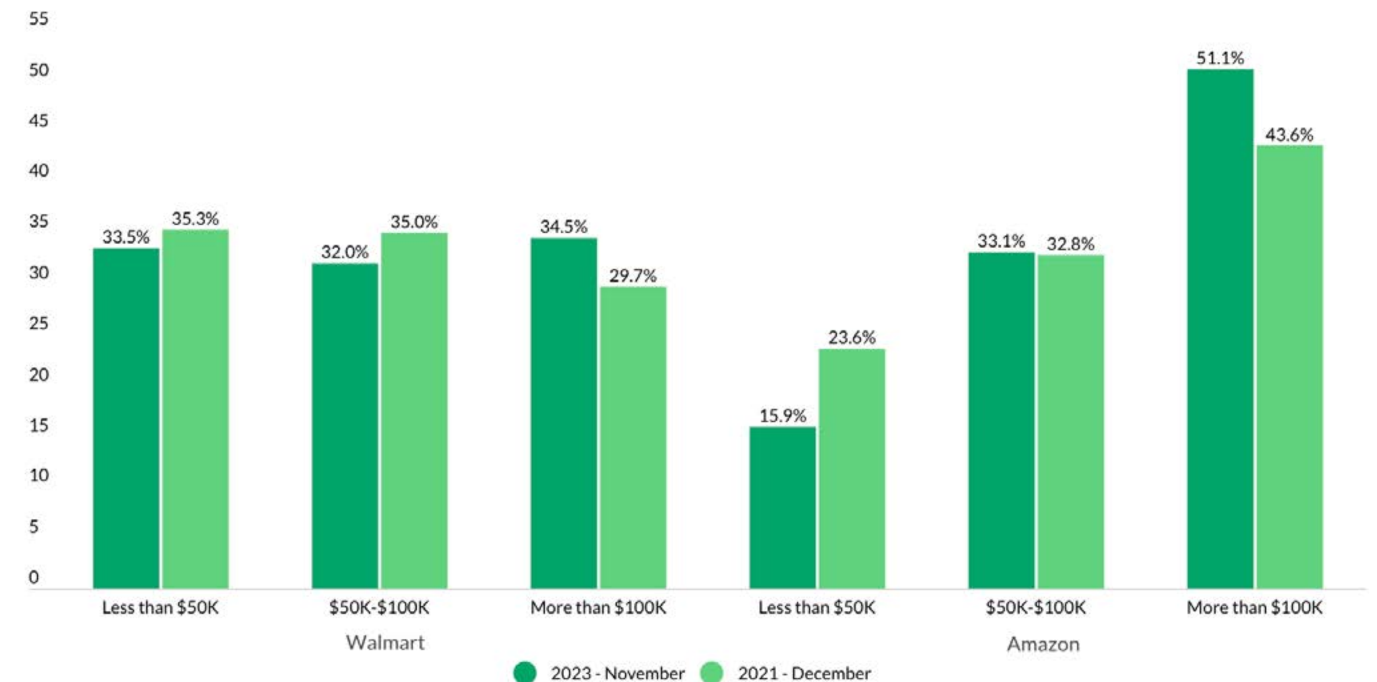
On the surface, Walmarche is not a totally crazy idea.

Consumers, across all income levels, are spending less and trading down to manage the impact of inflation that still results in prices that are too high, according to PYMNTS Intelligence. The appetite for fashion and home furnishing dupes is increasing across all shopper demographics, and influencers are taking to Instagram and TikTok to document how to buy the look and not the label for a lot less.

Looking at Walmart's numbers, this move also seems important.

According to PYMNTS Intelligence, Amazon's share of high-income consumers is 36% higher than Walmart's and 2.5 times more consumers have an Amazon Prime subscription than Walmart+. More of Walmart's customers earn less than $50,000 a year than earn more than

Figure 1
Amazon and Walmart shopper profile trends, by income



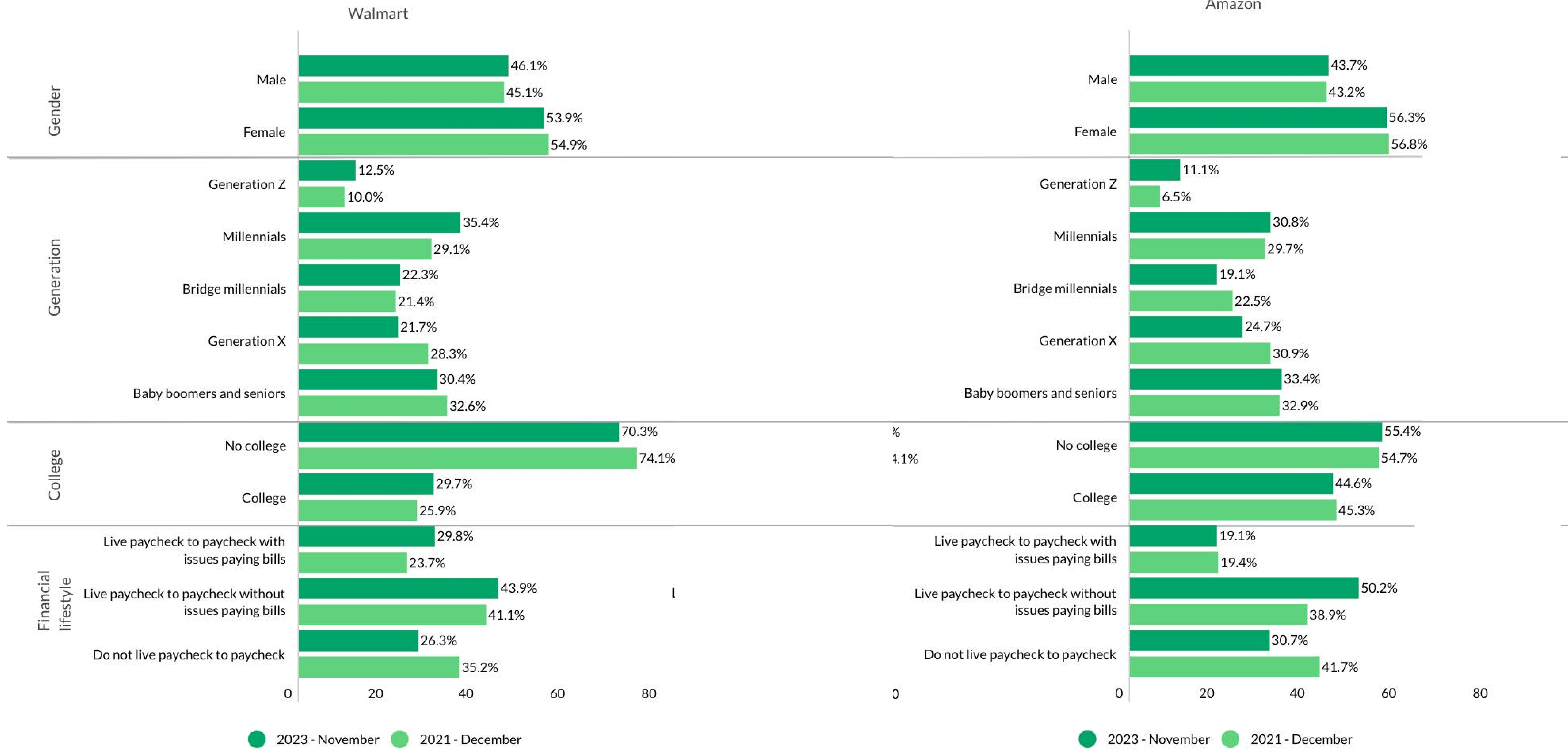
Source: PYMNTS Intelligence
Tracking the Digital Payments Takeover, February 2024
N = 2,501: Complete responses,
fielded Nov. 14, 2023 – Nov. 26, 2023

$100,000 — roughly a third at each end of the income spectrum.

Thirty percent of Walmart's shoppers live paycheck to paycheck and have issues meeting their monthly financial obligations, an increase of 10% over the last two years. Walmart's shoppers are disproportionately lower-income consumers who also disproportionately feel the inflation pinch.

Having a shopper base that is less financially pinched is important as Walmart finds its share of overall retail spend declining against its biggest rival, Amazon. PYMNTS Intelligence analysis of retail sales using Q4 data from SEC filings finds Amazon's share of retail spending in 2023 to be 10 percent to Walmart's 7.3%.

Figure 2 and 3
Amazon and Walmart shopper profile trends, by demographic



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Walmart is losing ground to Amazon in key retail categories that were once its bread and butter: electronics, health and beauty, sporting goods and hobbies, and home furnishings. Grocery remains Walmart's huge juggernaut, at roughly 19% of all grocery purchases. But that's a share that has remained relatively constant over the last couple of years. Amazon grocery, by comparison, looks anemic, even though its share has increased 10% over the last few years.

But Target's Tarjay does not a Walmart Walmarche strategy make.

[In case you are wondering, Walmarche is a portmanteau of my own creation. Walmart execs should feel free to use it, with appropriate credit, of course.]

"Tarjay" is the mashup of known designer brands at affordable price tags bought by a shopper with a median income of $80,000, lured into the stores by the cheap, chic brand association — and the scarcity of the collections offered. While there, the shopper finds other cheap and chic fashion or home furnishing merchandise at lower prices.

"Walmarche," as it's been described, seems different — and a harder hill to climb. Walmart must first convince high earners that they'll find recognizable designer brands or really high-quality dupes at cheaper prices than they'd find elsewhere, and then make shopping at Walmart a habit. It's not clear that Carbone pasta sauce and knock-off navy blazers will be enough to change high-earner shopping habits — especially when most of the product mix and shopper profile inside of a Walmart store remains largely the same. And when many high-income shoppers make such purchases online for the convenience of not having to walk inside of a physical store.

There's also the risk that becoming too much Walmarche could alienate Walmart's core shopper.

That's what happened when Target's cheap and chic mastermind used the Tarjay playbook to attempt JCPenney's reinvention a little more than a decade ago.

WHEN CUT-AND-PASTE STRATEGIES WON'T CUT IT

If you like how Apple Stores are designed and the Genius Bar works, you have Ron Johnson to thank. It is he who devised the strategy — and the plan to see it through. His thesis was that spaces beautiful enough to walk into make buying a better experience and create opportunities for collaboration and enduring customer loyalty.

In his role as VP of merchandising at Target, it was Johnson who forged the partnership with Michael Graves in 1999. That partnership became the foundation for the "cheap and chic" product strategy that hooked a new shopper demographic.

The JCPenney board hired Johnson in 2011 to help plug the deepening sales hole created during the 2008 recession. Johnson's plan was to implement a mashup of his Tarjay/Apple Store plans. He hired a former Apple colleague to help.

The plan was to create little branded store vignettes inside of JCPenney where shoppers could discover new designer brands, hang out, meet people and then buy stuff. Private label brands were sunset. Coupons, which were to JCPenney shoppers what Frisbees are to my Border Collie, were eliminated in exchange for everyday low prices.

Less than a year into the launch of this new store concept, Johnson was shown the door by the Board. The CEO he replaced was brought back. The investors who lauded Johnson and his initial strategy discovered that the shoppers who drove billions in sales for the brand liked coupons, and the private label brands they carried in the store. The tried-and-true JCPenney customer didn't want to hang out and didn't like — or couldn't afford — the hipster-branded merch sold there.

New young, trendy shoppers didn't show up either. Soon, neither did those who kept the cash register ringing. Sales got worse, not better.

JCPenney filed for bankruptcy in 2020, then emerged from bankruptcy with new investors and a $1 billion turnaround plan in 2023. Gone are fancy brands and places to hangout. Operational efficiencies, improving the quality of its private label brands, upgrading its digital experience, and turbocharging its coupon and

rewards programs, it claims, will support its goal to remain the shopping destination for America's working families.

Tarjay worked for Target and not for JCPenney because Target didn't try to force a round shopper profile into a square hole. The challenge for Walmart is balancing the high-income shopper expectations with the everyday-low-price proposition and merchandise assortment that supports the shopper who built its brand over the last 62 years.

DATE NIGHT AT WALMART'S FOOD COURT?

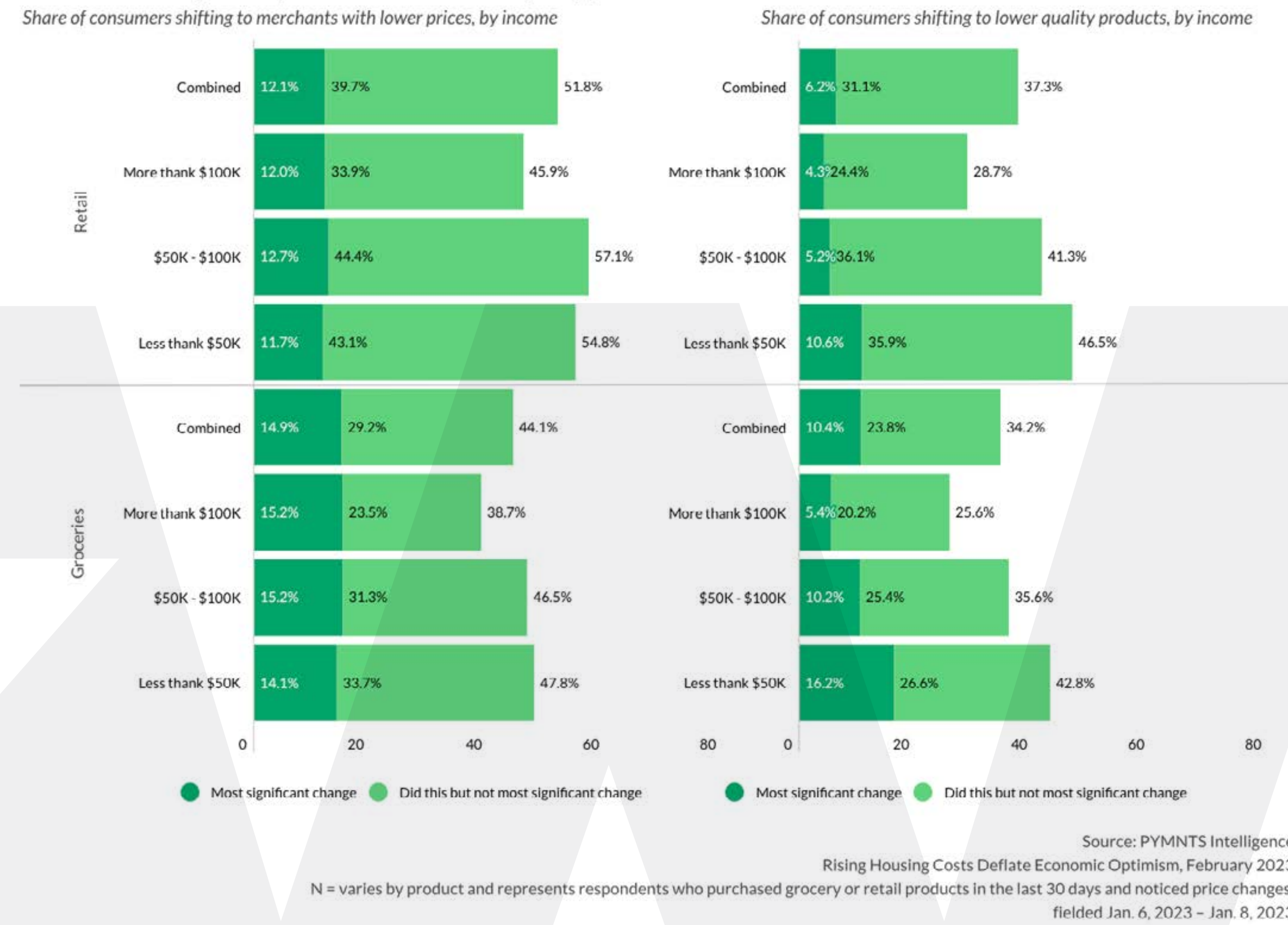
Walmart is the largest physical retailer in the world, on solid financial footing with sophisticated data analysts and strategists who know that it will take more than duck breasts, stylish mannequins and funkier looking baby cribs to attract more spend from high earners and bring more of them into their stores. Those are the shoppers with the greatest number of shopping options and stores who want their business.

Those are also the shoppers who don't tend to switch merchants to find better deals. PYMNTS Intelligence data finds that high-income consumers don't switch stores to save money, they just buy cheaper products at the stores they already shop. Lower-income and financially stressed consumers do. For those consumers, following the money often means finding a new merchant.

One of Walmart's biggest challenges is getting a growing share of the consumers who shop there today for groceries to stay for clothes, toys, electronics and — increasingly — home furnishings. As their sales numbers reflect, and earnings reports confirm, they don't. Getting more of those shoppers to convert seems like Walmart's low-hanging fruit, and they probably don't need duck breasts in the meat case to do that.

Will the wonder of Wonder be enough to make Walmart their new favorite dining and shopping hotspot? Unlike the local carryout, you have to walk into the store to pick up the order — that's friction. And then there's the product/market fit. Apparently the idea of shopping and grabbing

Figure 4 and 5
Consumers shifting to cheaper merchants and lower quality products



a bite was not appealing enough to shoppers to keep Walmart's Ghost Kitchen 1.0 a going concern. It's been said that the fastest way to a man's heart is through his stomach — we'll see if fast fine is the fastest way for high-income shoppers to beat a path to Walmart's new store format.

Here's one thought. Walmarche could end up making Walmart more attractive for the lower- to middle-income consumers there already, especially since Walmart is subsidizing how much consumers pay to buy those fancy brands right now. Maybe Walmarche ends up making more of the shoppers they have today more loyal — and budding gourmands.

Now what about that Walmoi app?

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April 15, 2024

WHAT GENERATION Z WANTS FROM THEIR BANK

There are 69 million consumers in the U.S. who are between the ages of 12 and 27. They are described as the first digitally-native generation — a generation that has lived with mobile phones and apps for most of their lives. The iPhone was introduced 17 years ago when the oldest of this cohort, known as Gen Z, were in the fourth grade.

By 2030, barely five years from now, Gen Z will represent a third of the workforce. Their disposable income is projected to increase by sevenfold and their spending by sixfold as their incomes rise and they begin to benefit from the $90 trillion transfer of wealth headed their way from parents and grandparents.

By 2030, **Gen Z will represent a third of the workforce**.

For that reason, Gen Z is the generation that all businesses are courting — they are their future workers, customers, business partners and investors. What makes this generation tick is the subject of intense scrutiny because decisions made now could stick for decades to come.

Especially when it comes to how and where they bank and how and where they spend their money.

GENERATION MOBILE

I had the chance to present the results of new PYMNTS Intelligence research on this topic with those attending the PSCU Member Forum in San Antonio last week.

What Gen Zs want from their bank was one of several research outcomes from a path-breaking study of credit union members, credit union executives and FinTechs done with the support of PSCU.

The research objective was to examine the innovation required of credit unions to meet the needs of their members today — and to attract and retain the future generation of customers over the next five to six years. The research outcome provides a blueprint for Credit Union 2030 — and an index

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to measure the innovation readiness of credit unions to deliver member-driven outcomes over that period.

The study considered more than fifty products and services, along with financial metrics from the credit unions studied. It analyzed current member use and future expectations for current and future credit union product offerings. The study also examined the ROI of investments in innovation to identify top, middle and bottom performers. More than 4,500 consumers were studied, both credit union and non-credit union accountholders.

The PYMNTS Intelligence/PCSCU study generated more than one million data points and, for me, one important conclusion.

What Gen Z wants from a bank is what almost everyone now wants from their bank: personalized products and services that are easier to consume on their mobile devices.

> But for Gen Z, many features aren't just nice to have. **They are a requirement.**

But for Gen Z, using their phones to open accounts, pay bills, send money to family and friends, get financial advice, apply for credit including BNPL, invest and save money — aren't just nice to have. They are a requirement. Their low bar: those products and services must be available on the phone, on demand, and without having to bounce between apps and screens to access them

Gen Z wants this easy and seamless access to banking and payments services because they are active consumers of banking and payments products — five on average, according to the research. And they'd use twice as many, if offered and available.

So, therein lies the rub.

Gen Z is more willing and able to switch banking relationships to get the banking services they want — and they do: two to three times more often than their parents, and four times more often than their grandparents.

GENERATION BANK SWITCHER

PYMNTS Intelligence research finds that 42% of Gen Zs who bank with credit unions have changed their banking relationship over the last 12 months, as have 44% of Gen Zs that bank with traditional financial institutions.

Sixty percent of those switchers have kept their prior account open but no longer use it as their primary banking relationship — it's no longer top of mind and/or top of wallet. Forty percent have closed their account completely. Fewer than 5% of these bank switchers came from FinTechs or neobanks.

Gen Z says they switch to get products and features that are highly mobile-centric. It's not consistently what credit unions offer — or even say they plan to in the next three years.

Gen Z wants P2P from their bank or credit union, yet 41% of credit unions don't plan to offer a solution that delivers a Venmo-like experience. (BTW, big banks don't either.)

They would like to invest in crypto, yet 95% of credit unions don't have anything like the Robinhood, Venmo/PayPal crypto investment option on their roadmap.

> These innovation gaps can be costly, **even though 95% of credit unions say banking Gen Z is a high priority.**

The pre-college teen Gen Z cohorts want debit cards and apps that suit their needs, yet 85% of credit unions say don't plan to offer something like the Greenlight experience.

Forty-two percent of credit unions say that they don't plan to offer instant issue cards, even though this generation lives on their phones and wants to use them to pay everywhere. Many don't even carry a physical wallet, so virtual is the mode of payment product they want and use.

Of top-performing credit unions, 40% say they have no plans to offer a BNPL product, even though it's regarded as an important budgetary tool for Gen Z consumers. That's,

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sadly, the same share as the bottom performers.

These innovation gaps can be costly, even though 95% of credit unions say serving Gen Z is a high priority.

Not only have Gen Zs switched their primary banking relationships in the last year, they are also 2.5 times more likely to leave their current financial institution if these services are unavailable. Or delivered with an experience that has too much friction associated with it.

There is a silver lining.

Gen Zs say they'd rather get services like BNPL and financial advice from their banks and credit unions.

So there's a chance for banks and credit unions to deliver a personalized set of products from the financial institution that also bank their parents, but are delivered in a way that is best suited to their mobile financial lifestyle.

With trust, safety and security as the common cornerstones of that relationship.

NOT YOUR FATHER'S BANK

In 1988, Oldsmobile launched an ad campaign that would ultimately destroy the 106-year old car brand.

"Not your Father's Oldsmobile" was a tagline promoting a new "generation" of Olds(mobile) models designed with a much younger buyer profile in mind. GM created the campaign to overcome the brand's reputation as the safe and reliable car driven largely by Dads and Granddads. I can relate. As a kid, there was always an Olds sitting in front of the house.

The campaign's objective was to persuade young drivers to give Oldsmobile a serious look. The television and print campaign featured famous parents in the passenger seats of new Oldsmobile car models driven by their younger kids. William Shatner, Ringo Starr, Leonard Nimoy and Rod Sterling were among those famous parents. Space-age themes were the ad's cornerstone. If you have thirty seconds, it's worth checking out the William and Melanie Shatner ad.

These cringeworthy ads backfired. It is reported that Oldsmobile sales between 1986 and 1991 fell by 50% and by another 50% at the end of the 1990's. Oldsmobile buyers might have been older, but they didn't like being stereotyped that way, as old and stodgy. Younger buyers didn't want to be seen as driving the same car brand as Dad — and worse yet, getting his stamp of approval — even if those new models looked different and came with spiffy 1990-s vintage bells and whistles.

Oldsmobile was sunset as a brand twenty years ago on April 29, 2004.

The one thing that lived on was its tagline.

Not your father's [fill in the blank] became shorthand for describing the distinct differences between modern products and services and those which older generations may have considered their go-to.

Including banking.

> Younger buyers didn't want to be seen as driving the same car brand as Dad — **and worse yet, getting his stamp of approval.**

"Not your father's bank/banker" has been used since the mid 2000's to signal that the addition of online banking, credit and wealth management and investment services was an important upgrade to traditional banking customs and norms — even though not much else had really changed.

Today, it's implicitly the value proposition of FinTechs whose slick mobile apps and easy onboarding appeal to many Gen Z and Young Millennials who view Dad's bank as too old-school for their modern mobile ways.

Many Gen Zs find that the digital ease, simplicity and relevance of the banking products and services offered by FinTechs check their box. And work for many of their parents, who'd rather open a Greenlight account in their name for their

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14-year-old than do the same thing at their bank. It's easier to open, manage and monitor the spending and savings of their kids. Links to investment apps make it easy for their kids to learn about investing and open new conversations between parents and their kids about the impact of current events on stock and market performance.

But the shift to digital and more modern ways of engaging with people and businesses today crosses generational lines. Serving Gen Z well means delivering products and services to a mobile-centric consumer whose expectations for a seamless banking experience span generations — but whose requirements of those products and features vary based on lifestyle and lifecycle.

The smartphone has become the great financial services equalizer.

The shift to digital and more modern ways of engaging with people and businesses **today crosses generational lines.**

For every Generation Z consumer, there's a parent or grandparent Venmoing them money, texting, and Face Timing with them, probably paying some of their bills online and ordering stuff online they may need.

Meeting the needs of Gen Z makes it a common denominator for all banks, and the call to action for how all banks adapt the banking experience to an entire generation of banking consumer that expects a better and more personalized digital experience. For Gen Zs — but also for everyone who lives life in a mobile, digital first world. And who values the safety, security, soundness and depth of services provided by a traditional financial institution.

Just don't say this isn't your father's bank.

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May 7, 2024

IS APPLE AT RISK OF BECOMING THE NEXT IBM?

Sixty-three years ago this month, the world's first supercomputer was born. In May of 1961, IBM introduced its Model 7030, also known as "Stretch." The gamechanger was its computational processing power and speed. Computers were used mostly for scientific applications at the time, and crunching massive data sets was time consuming and tedious.

"Stretch" reduced the processing time of complex data sets from six months to a single day.

Three years later, in 1964, IBM introduced its System 360 Mainframe, marking a significant milestone in business efficiency. The System 360 bundled IBM hardware with software and services, making them easy to buy, use and upgrade. Businesses could also, for the first time, run multiple applications simultaneously using a single computer.

Mainframes, and the sale of them, propelled IBM into becoming one of the most valuable companies in the world.

By 1990, IBM was the 4th largest company on the Fortune 500 list; at the turn of the millennium, it was number six measured by revenue.

Companies and governments in need of massive, reliable, fast and redundant computing power bought them as fast as IBM could make them.

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DOWN AND TO THE LEFT

Ten years later, IBM's fortunes began to shift — as did its place on the Fortune 500 list.

IBM lost $5 billion in 1992, the most ever for a company at that time, after losing billions in each of the years before that. Between 2012 and 2020, IBM reportedly lost $95 billion in market cap.

Many case studies written about IBM's downward spiral cite a series of strategic management, pricing and partnership blunders, and a costly shift from its B2B core to personal computing in the 1990s. Those costly mistakes sapped time, dollars and focus from what was necessary to innovate for the future.

> This blind spot came from believing that IBM mainframes were so central to the core of the business that **customers would aways upgrade and buy high-margin services, but never leave.**

But in the early 2000s it would be its failure to recognize cloud computing as the cornerstone for computing in the digital age that would become IBM's corporate cross to bear. This blind spot came from believing, early on, that IBM mainframes were so central to the core of the business that customers would always upgrade and buy high-margin services, but never leave.

That's what Lou Gerstner observed when he was brought in to turn IBM around in 1993. At the time, he cited "corporate arrogance" as a contributor to the company's lack of urgency to shift focus, blaming a leadership team who believed too much in its own PR. The "no one ever got fired by buying IBM" mantra fanned those flames.

Until, of course, it didn't.

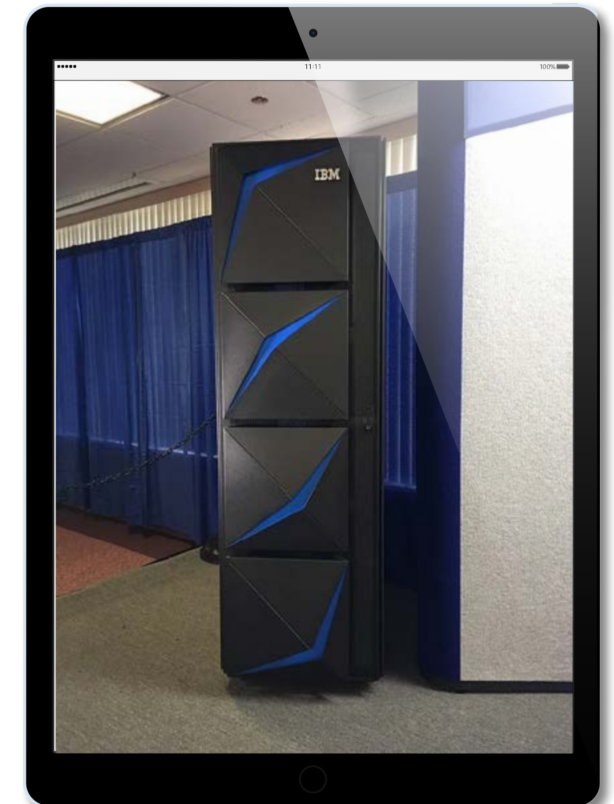
By the end of 2010, IBM had slipped to 65th place on the Fortune 500 list and has remained solidly stuck there for the last 14 years.

MILKING THE CASH COW

It is estimated that 10,000 mainframes exist today, mostly IBM vintage, and mostly owned by the largest companies in the world. It's reported that two-thirds of the Fortune 500 companies use them, as do 45 of the top 50 banks and 70% of the world's largest retailers. Big Iron, as these mainframes are collectively called, processes about 90% of credit card transactions today. There's a great story about the history of IBM and mainframes here.

Companies still buy mainframes because they are reliable and efficient data processing workhorses, despite the dearth of COBOL programmers and the cost to keep them running. They upgrade them because there's no other option — at least, not right now.

Analysts project that the mainframe market will grow a modest 6.4% a year over the next seven years – from $2.5B in 2023 to $4.5B in 2032. IBM's revenues from mainframe sales are expected to get a 3% to 5% lift in 2024 as new models are introduced and existing users upgrade their software and service agreements.



But experts, investors and analysts agree that IBM's future can't be about squeezing every last drop of milk from its flagship product, even though it will help keep the lights on in the near term.

Today, IBM is playing a costly game of catch-up — the cloud computing market was valued at roughly $588 billion in 2023 and is expected to reach $2.2 trillion in 2032 with a growth rate that is two and half times the mainframe sector. The shift from mainframes to the cloud

may be a many-years, even decades-long, journey for its current users. But it is so important for achieving key strategic objectives that any IT department worth its salt is planning for it, has probably even started, and is likely working with the big cloud providers and their partners to guide the process.

Then, there's AI.

IBM was an early innovator with Watson in 2004, yet they are rarely mentioned as a key contender when AI or GenAI discussions are had today. IBM made a big bet on healthcare, investing billions to build Watson Health and another $5 billion to acquire companies for their data. The focus was oncology; diagnosing and prescribing personalized cancer treatments was the use case. All signs seemed to point to a slam-dunk winner.

Soon after Watson Health's 2016 launch, doctors found its patient diagnoses to be inaccurate and irrelevant, citing representative data limitations. They stopped using it. Watson Health was sold to a private equity firm six years later, in 2022, for $1 billion.

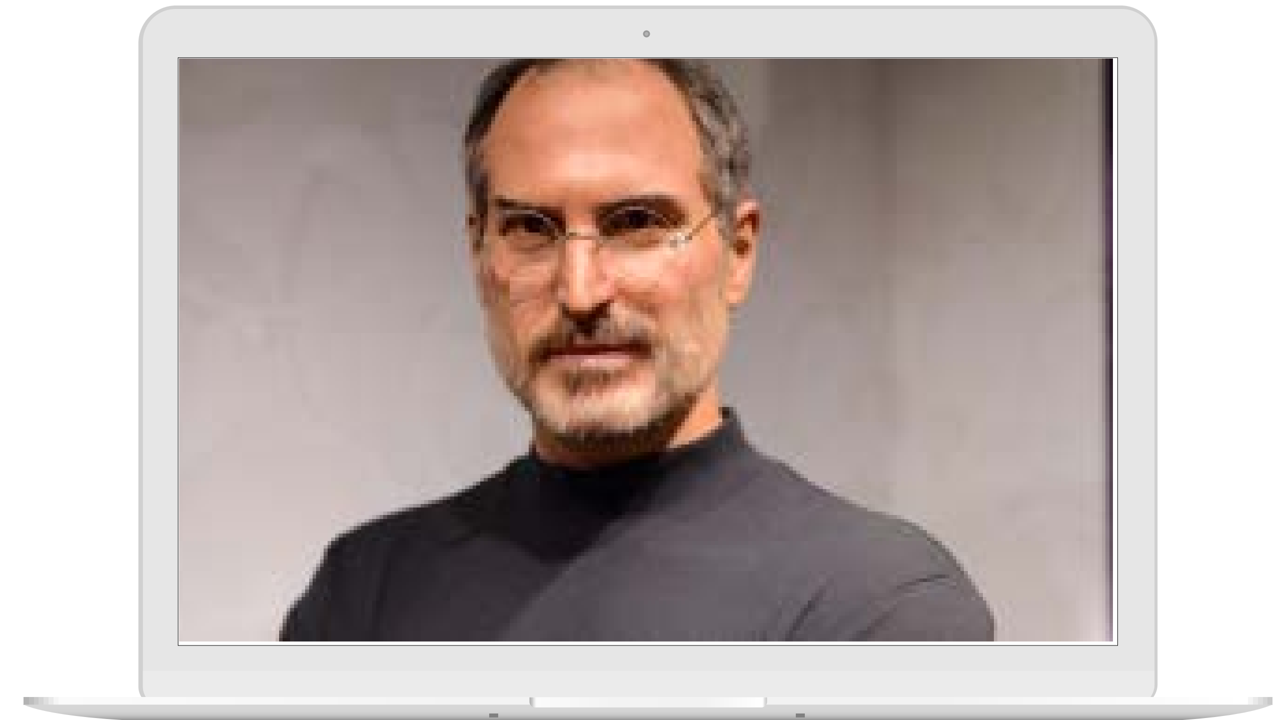
WHEN THE APPLE DOES NOT FALL FAR FROM THE TREE

In 2000, Apple was 285th on the Fortune 500 list, having fallen 162 places (from 123) in 1995. A series of costly product, pricing and competitive blunders led to big losses each year between 1994 and 1997. In 1997, Apple reported a Q1 loss of $708 million, destroying 85% of the company's value, and nearly tipping the company into bankruptcy.

That was also the year that Steve Jobs returned to Apple.

He persuaded the board to give him some time to reposition the company and create better and more accessible personal computer products. He brought with him his dream team, including Jony Ive and Tony Faddell. That team — and the launch of colorful iMacs — brought Apple back to life.

So did the repositioning of the firm as a software company powered by cool consumer hardware — and the opening of 500 retail stores to give consumers a way to touch and experience Apple products before buying them.



The launch of the iPhone in 2007 and the App Store in 2008 would cement Apple's place in history as having created the one of the most transformative consumer products of all time.

By 2010, Apple had jumped 229 spots to 56th place on the Fortune 500 list.

By 2020 it had moved fifty more to sixth place.

In 2023, Apple occupied spot number four. And its market cap reached $3 trillion.

THE BIG APPLE EARNINGS CIRCUS

Apple's success over the last 24 years represents one of the, if not the, most successful turnaround stories of all time. Since the iPhone launched in 2007, it has grown its annual revenue 16X — from $24 billion in 2007 to $383 billion in 2023. The iPhone user base counts 18% of the world's population or 1.46 billion users. In the U.S., 55% of the adult U.S. population owns an iPhone, with many of them representing the most affluent consumer spending demographic.

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On Apple's Q2 FY 2024 pep rally earnings call, CEO Tim Cook described Apple's "amazing" quarter, using the word "all-time" 14 times to describe Apple's performance to investors, along with other superlatives such as "groundbreaking."

This as iPhone revenue was reported down by 10%, iPad revenue down by 17% and Wearable device sales down by 10%. Apple also guided single digit growth in iPhone sales for the rest of the year.

Cook described Apple's latest hardware innovation, Vision Pro, as "exciting" and a big hit, citing nearly half of all Fortune 500 companies as buyers exploring "innovative" use cases. He failed to say how many units were purchased by individuals and which use cases companies are exploring, even though he was asked.

GenAI plans were also vague, but described as a very key opportunity for Apple. Everyone expects details at Apple's annual World Wide Developers Conference about a month from now (June 10). Already, the hype machine is spinning at warp speed.

Apple's earnings bright spot was the increase of 14% in Services revenue with double-digit increases guided for the balance of the year. It's not transparent about what accounts for that growth, although Apple did report a total of one billion subscribers to Apple One. That's roughly two-thirds of its user base.

Analysts and investors remain bullish on Apple's future. Its stock price is up 8% since reporting its quarterly results. Many say that's just because the results weren't as bad as they expected. Warren Buffet, whose Apple stakes once comprised 50% of Berkshire Hathaway's portfolio, just sold 13% of his shares. Nothing bad, he said — it was just time to cash in and move on.

Everyone seems optimistic (hopeful?) that GenAI will juice future iPhone sales and stem defections to the Android handsets that already include GenAI powered software.

And why not? The iPhone and its business model created the smartphone category, the device that connects the physical and digital worlds for its users.

The indispensable consumer product that anchors the digital transformation and has become the centerpiece of life inside the Apple ecosystem.

And it's Apple.

THE WAGONS THAT ARE CIRCLING APPLE'S BASKET

Despite all its stunning achievements, by any objective measure Apple faces multiple serious and strategic issues. Issues so fundamental that everyone should be asking questions about the many assertions supporting its future as a leading mobile technology ecosystem — and its stratospheric market cap.

The iPhone and the iMac were big hits. But that is where the big hit parade seems to slow down.

By any objective measure Apple faces **multiple serious and strategic issues.**

Wearables were a hit for a time, but now not so much. The HomePod was an outright flop. Like most AR/VR headsets, the Vision Pro seems a niche product that got a PR and fanboy pop but seems to struggle to gain adoption. The Connected Car, billed as Apple's biggest flagship product since the iPhone, was shuttered after a decade-long attempt to make it road-and consumer-ready. And don't even try to ask Siri where Apple was when AI took off in late 2022.

Unless Apple has another transformative product innovation hiding up its sleeves, Apple's growth is entirely dependent upon people buying the next generation of iPhone, upgrading them and using them. The same form factor, more or less, that they have been buying for the last 17 years.

And as goes the iPhone, so goes Services.

Without the iPhone, there is no Services revenue or double digit increase that comes from using Services — the part of Apple's business that is high-margin and touted as its growth engine.

MORE MARKETS, MORE PROBLEMS

That may be harder to assume than it was a year or so ago.

At the end of the first three months of 2024, Apple ceded its global handset leadership to Samsung. Apple's iOS users are a third of Android's with 3.3 billion users and a 41% global share.

There's China, which, along with AI, could mark the biggest headwinds Apple has seen since the bad old days of 1994. China is Apple's third largest market accounting for roughly 17% of its sales. For the first three months of 2024, iPhone revenue there fell 19%, as Huawei sales jumped.

Of course, it doesn't help that the Chinese government forbids government officials from using iPhones and arranged key photo ops of all of them clutching their Huawei handsets. But don't blame the Xi regime. Chinese consumers, who are now feeling the spending pinch, can get better, cheaper phones and don't need to rely on Apple's app ecosystem given the widespread use of WeChat.

In a double hit to both Tesla and Apple, handset maker Xiaomi announced the debut of a low-priced electric vehicle that is also totally integrated with the phone. Now the Chinese consumer can get a two-fer — a good-looking and inexpensive EV, totally integrated with a digital ecosystem powered by Xiaomi.

Although it will take time to see the impact of the loss of the China iPhone sales to its corresponding Services revenue, it seems inevitable.

> Perhaps Apple's biggest threat is AI, **where, like IBM, it squandered its early lead**.

There's Apple's business model, a foundational pillar of its innovation and competitive advantage. It is also one under attack in nearly every jurisdiction worldwide, forcing Apple to open its App Store to competing payments processing systems and dinging its Services revenue further.

There's high-margin search revenue. Safari's search was so bad, it needed Google to step in. And it did — for a fee that became a win-win for them both. But depending upon how the Google antitrust case works out, Apple may be out the high-margin $18 or so billion a year they get from Google to power search on the iPhone. That reportedly accounts for 36% of Safari's annual ad revenue.

Apple's closed ecosystem also means that Apple apps are not interoperable or portable unless used with another Apple product — which are fairly limited now. Without interoperability and portability, iPhone users are forced to live their life in that ecosystem. Innovators are forced to prioritize and pick sides. And Apple shuts itself out of the 3.36 billion consumers who use Android phones.

Apple's closed ecosystem has worked well in a world where the iPhone is the front door that opens all other apps in an ecosystem that its high-spending users like living in. But in a world of distributed commerce and voice-activated transactions and commands, it will be increasingly limiting, and potentially frustrating. Try to use Apple Pay on any device other than an Apple device. Or your Apple Wallet on your PC.

Then try to use Chrome on your iPhone — you can — and Alexa on your iPhone or Android device — you can do that, too.

Or Chat GPT.

Perhaps Apple's biggest threat is AI, where, like IBM, it squandered its early lead.

ENTER THE DREAM NIGHTMARE TEAM

Apple was among the first to innovate voice with Siri — back in 2010 as an app, and a year later as an integration into the phone itself. Siri has improved over time but seems incapable of responding to complex tasks. Apple claims to have invested $100 billion in AI over the last five years, yet it isn't part of the conversation when it comes to the innovators who are now driving the AI revolution.

And just a week ago, Apple made the surprising announcement that it was teaming with OpenAI for GenAI on the iPhone.

Plan A? Or a sudden shift to Plan B (or C) from feeling the pressure of being late to the GenAI party?

As PYMNTS has written, there is a new dream team reimagining the future of the smartphone with GenAI — and it's not at Apple. OpenAI's Sam Altman and original Apple dream team member Jony Ive are passing the hat to raise $1 billion to create an AI-powered smartphone. In an interesting twist, one of the funds rumored to have an interest in participating is Laurene Jobs, Steve Jobs' widow.

Could this device become as transformative to the smartphone world as the iPhone was in 2007? Hard to know right now. But if the past is prologue and the dream team delivers, the odds seem high. And if isn't them, it might well be another team we haven't yet heard of.

> A GenAI phone has the potential to change the user experience, the way business **and consumers engage, and the business model that powers the economics of that experience.**

Like the iPhone, a GenAI phone has the potential to change the user experience, the way business and consumers engage, and the business model that powers the economics of that experience for users, developers and third parties.

Like IBM and the Mainframe, users won't bail right away. A lot will depend on what "it" is, how much the device costs, and how compelling the user experience and use cases it powers.

And how much work it takes to make a transition. The work to move from Android to iPhone and vice versa isn't fast or easy, and the differences not significant enough to put in the work. The data shows that not many people have.

CUTTING TO THE APPLE CORE

Like Blackberry and the iPhone that displaced it, and the IBM mainframe and cloud computing, market share shifts take time. But history tells us that once users see a different and better way, those shifts gain momentum, hit a tipping point and become irreversible.

Blackberry and IBM were ill-equipped to pivot in time, mostly because they believed that their products were indispensable. That there might be something better, but users wouldn't invest the time and the money to make the switch. They didn't see a different future, only one where incremental improvements to the products would be good enough to keep customers from fleeing.

They also failed to recognize the frictions that users would face if they didn't make the switch, the opportunities they would forgo but didn't want to, and the innovations that would make the experience new, different and truly transformational. Blackberry users didn't buy an iPhone to make calls or type emails, they bought it to connect to the digital world in a way that was impossible to do before. Enterprise companies aren't moving to the cloud because

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they're sick of mainframes, but because they want the speed and agility necessary to deliver real time, data-driven solutions to their customers.

Apple is one of the most beloved brands in the world, and once again flirting with a $3 trillion market cap. It has $56 billion in the bank and a talented team accustomed to delivering — and having people buy — Apple's next big thing.

But like IBM, its flagship product has changed little over the last 17 years. The form factor looks better, is faster, takes better pictures and doesn't have to be charged as often. Software upgrades add new features. But nothing else has really changed.

IBM, at number 65 on the Fortune 500 list, is still a big global company with products that are still relevant and a brand that still holds sway. It is making investments in quantum computing, which could be the next big thing that drives customer value and the revenue to match. Today, it just doesn't lead the category in the same way it once did.

Since 2011, Apple's formidable cash cushion has given it the luxury of staying power in markets and sectors where it wasn't first but had the bank account to outlast others who may have been. But GenAI has changed the rules of play, the speed of the game, and others are farther ahead.

The next year will be interesting to watch, as innovators (both known and still in stealth) use GenAI to drive the next big change in how people and businesses use digital to connect. Innovators with a different vision for how to use it to drive the connected economy forward are unconstrained by legacy products that may pay the bills today, just like Apple was in the early 2000s when the iPhone was little more than an idea.

In many ways, for Apple, it is a little like déjà vu all over again.

Smartphone upgrade cycles are getting longer. Consumers, iPhones in hand, might prefer to wait and see what a pure-play GenAI phone does and what makes it different before buying the iPhone 16, 17, or 18.

The GenAI-curious might buy a phone from a GenAI challenger to play around with while still using their iPhone before jumping in with both feet.

The Fan boys could be the last to bolt — although as early adopters, you can never really be sure.

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May 21, 2024

WHY ZILLENNIALS WILL RULE THE DIGITAL ECONOMY

The Census Bureau collects demographic data on the birthrates of those living in the United States and groups them into age-related cohorts based on the year in which they were born. This is done every ten years based on a household survey.

The current generational breakdown looks something like this:

Generational Cohort	Year of Birth	Age Range
Post-War	1945 and earlier	79-96
Baby Boomers	1946 – 1964	60-78
Gen X	1965 – 1980	44-59
Millennials	1981 – 1996	28-43
Gen Z	1997 – 2012	12-27

This “pulse rate” way of classifying the behavior of people born in these 15 year generational bands assumes that birth date defines behaviors within that cohort. That all people who come of age within those age bands behaves similarly. And that the differences between cohorts are more relevant than the differences among the behaviors of the individuals within them.

A funny thing happened on the way to the digital transformation that throws cold water on this once tried and true way of benchmarking generational behavior.

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AGE IS JUST A NUMBER

Over the last twenty-five years, technology has introduced new ways for people and businesses to engage — and routine activities once only done in person became digitally enabled. For everyone.

Take social media.

An 18-year-old Gen Z watches TikTok 58 minutes a day on a mobile phone, a 42-year-old millennial spends 2 hours on Instagram every week on her iPad. A 62-year-old boomer spends 11 hours on Facebook on either a PC or a mobile device each week. All different social media strokes for different generational folks. Yet all generations, except for the very oldest, are using social media apps to some degree to connect to people and brands using their mobile devices and apps.

And let's not forget that it was the Gen Zers and millennials who taught Grandpa how to text and Grandma to Venmo them money instead of a sending a check or cash tucked inside of a birthday card.

Using different birth years instead of the standard generational cohort as a starting point for our analysis helped us **understand how similar — and different — the use of technology was across consumers regardless of generational cohort.**

It's an observation that the PYMNTS Intelligence team made in 2018 when we began to more fully examine the payments, banking and shopping behaviors of a national study of consumers living in the U.S.

We wanted to better understand the degree to which people used digital to connect to one of the many activities that represented a person's daily or weekly routine that were also often done in person at the time.

Using different birth years instead of the standard generational cohort as a starting point for our analysis helped us understand how similar — and different — the use of technology was across consumers regardless of generational cohort.

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We learned that access to technology, the devices consumers owned and how they used them was more statistically relevant to understanding shopping, banking and payments behaviors than assumptions based on the traditional age-defined cohort to which Census said they belonged.

Making broad sweeping generalizations asserting that all members of a particular cohort behaved the same way — inaccurate.

We examined how consumers use connected devices and the things they do with them.

Less connected individuals might use connected technology to conduct their banking transactions, communicate via text and email and stream movies. More connected consumers also shop for products, buy food and manage their health using connected technologies. And all of this can be accomplished just using a smartphone.

As consumers become more comfortable, they begin to adopt more connected devices like smart TVs, smart watches, gaming consoles, voice connected speakers and even purchase connected home devices like thermostats and smart appliances. These highly-connected individuals conduct a wide range of household activities digitally, including using them.

Currently 19% of the population falls into the most highly-connected category, and they tend to be younger (46% of Gen Z are in the highly-connected group) and to some extent have higher incomes (only 15% of lower-income individuals fall into this group).

THE BRIDGE GENERATION

This insight was also key to understanding the differences in consumer behavior within age-defined cohorts, particularly when studying millennials and Gen X.

Also in 2018, the PYMNTS Intelligence team identified important behavioral differences within the millennial and Gen X cohorts. A 29-year-old and 43-year-old millennial turned out to be as different as apples and asparagus, even as both were classified as millennials by Census. So, too, were the behaviors of a 45-year-old and a 59-year-old Gen X.

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Using birth year as the starting point, the PYMNTS Intelligence team identified a new age cohort that reframed traditional generational lines; one that "bridged" older millennials with younger Gen Xers.

We found this group to be affluent and well-educated, settling into more stable careers and earning more money, establishing households with partners and children, feathering their nests and consuming many new things as they did it. They relied on connected devices to guide their shopping decisions — from the products they bought to the stores they shopped. Their shopping, banking and payments behaviors were also quite different from their younger and older counterparts in the two cohorts.

A 29-year-old and 43-year-old millennial turned out to be as different as apples and asparagus.

We called this new generational cohort "bridge millennials," and they were consumers born between 1978 and 1988 (who at the time were between the ages of 30 and 40 — today they are 36 to 46). They share a more technology-driven lifestyle, a similar set of lifecycle needs and digitally-driven expectations and shopping and payments behaviors unique to this group.

What shaped this behavior was their introduction to digital at important moments in their lives.

Bridge millennials were the first to grow up in a largely internet-connected digital world. The oldest bridge millennials were in high school when internet-connected PCs were introduced, the youngest in middle school when the iPhone first launched. The elder bridge millennials rode the PC to mobile wave, were the early champions of digital in the workplace, and early adopters of consumer mobile and digital apps and devices.

The youngest had access to smartphones and apps throughout high school and college. By the time of their college graduation, they were fluent in speaking the language of mobile and apps in business. They became mobile pioneers, raising the bar for what a great mobile experience was in and outside of their work environment. They fed the flames of innovation by giving innovators the incentive to create new and different experiences.

This group was interesting not only because of their introduction and familiarity with connected technologies. They became old enough and far enough along in their career that they were emerging as a significant economic force in the economy.

I published my first piece describing the importance of the bridge millennial to payments and physical retail in May of 2018[1]. The piece referenced a study that tracked 4,000 consumers each quarter over an 18-month period, done with the support of Worldpay.

Bridge millennials were the first to grow up in **a largely internet-connected digital world.**

I wrote then that they would be the bellwether for how connected commerce would evolve over the next five to ten years —at that time, through 2023 and beyond.

It turned out to be more than a well-educated guess.

The PYMNTS Intelligence team continues to track spending patterns and reports on bridge millennials each time we release new data on consumer and merchant trends.

It turns out that over time this group has led to an expansion of digital shopping across retail and non-retail categories. At the same time, we have seen an evolution toward the use of purchasing online and picking up in stores. In fact, in 2019, a year before the pandemic hit, 35% of bridge millennial consumers preferred to purchase digitally — and that expanded to over 53% during the height of the pandemic (2021). That rate has declined as we exited the pandemic, but is still at 43% (far greater than it was before).

At the same time, we have seen the overall portion of the population that prefers to order online and pick up at the store increase from 27% before the pandemic to 41% last year. All of which demonstrates the adoption of connected technology over and

[1] Bridge Millennials and the Threat to Physical Retail, Karen Webster, May 14, 2018. https://www.pymnts.com/consumer-insights/2018/bridge-millennials-physical-retail-future-online-clothes-shopping/

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above temporary impacts due to the pandemic — and the influence of bridge millennials in shaping that trend.

THE ZILLENNIALS

We found the same thing when examining the Gen Z cohort in 2022.

Using the same methodology we used for the bridge millennials, the PYMNTS Intelligence team identified a new cohort that straddles the classic GenZ and millennial age-defined cohorts. We call them zillennials, the 39.3 million consumers who were born between 1991 and 1999 (and now between the ages of 25 and 34). The younger members of this group were in the fourth grade when the App store came to the iPhone. The elder zillennials were heading off to college, smartphone in hand.

Zillennials are deeply dependent on mobile devices and apps to navigate the digital economy.

This is the cohort for whom digital is native to their generation but who are transitioning from school to the workforce. They are deeply dependent on mobile devices and apps to navigate the digital economy. And more than their older peers, they are a generation for whom mobile and apps have changed how they work, bank, pay and shop.

And their expectations of businesses they work for and shop with.

The "Generation Zillennial" report that PYMNTS Intelligence will release tomorrow (May 22, 2024) is the first in a new monthly generational study series that will benchmark zillennial digital behavior, along with that of other generational cohorts across all aspects of the connected economy. The survey design captures a number of social and behavioral trends that offer new insights into the influence of mobile phones on decision making and spending patterns and choices across generations.

With a big focus on zillennials.

One study and set of data points does not make a trend — yet — but we already see the profound impact of mobile apps and phones on this generation.

We find that zillennials are more financially responsible than many may give them credit for: more than three quarters of zillennials can be classified as either budget-minded (45%) or wealth builders (33%). Only a small number are either "givers" (4.8%) or splurge spenders (16%).

We believe that these personas provide a more meaningful way to track and understand zillennial behavior over time — and may even help to explain why so many in this age group move back home after school. Saving money and paying off debt seems to be a high priority, and therefore, a necessary part of their financial plan.

We believe that tracking zillennial behavior will give us a window into **understanding how they use digital tools to navigate the connected economy.**

We hypothesize that it was the early access to mobile apps like Greenlight, Step, Copper, goHenry, Robinhood, Venmo and others that made it much easier for this cohort to build good savings and investment habits, with parental guardrails. Setting goals and tracking progress toward those goals could happen in real time and in real life for zillennials, sparking conversations with friends and family members about stocks and markets and the tradeoffs between risk and reward when making investment decisions. If we are correct, access to these apps has helped shaped the personas we observe of this cohort in very different ways.

Of course, we will examine this more fully in future releases.

WHY ZILLENNIALS MATTER

Like with bridge millennials, we believe that the zillennial cohort will be instructive in understanding the substantial impact of digital on the lives of these consumers. By the end of this decade, zillennials will represent 13.6% of the population and 14.5% of consumer spending. They, along with their older millennial

peers, will represent a majority of the workforce. Economically, together, they will be a force.

We believe that tracking zillennial behavior will give us a window into understanding how they use digital tools to navigate the connected economy and the influence of apps on kids and teens in shaping payments, credit, banking and investment preferences and behaviors. As important, we believe also it will give us a lens into the impact of their digital behaviors on others across generations with whom they interact.

The premise of the connected economy that I first began writing about in March of 2020 was mostly about the ability of mobile devices and apps to connect activities across once-discrete industry verticals. What we have discovered since is their demonstrable impact on people, no matter their age.

Technology, mobile and apps have become the bridge that connects people across traditional generational definitions, making age little more than a biological mile-marker on life's journey. A way to share new experiences, drive adoption of new technology and establish new preferences.

And, as we've discovered, an entirely new way to define population cohorts.

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June 21, 2024

MEET THE 27 MILLION AMERICANS WHO DRIVE 8% OF CONSUMER SPEND BUT STRUGGLE TO PAY THEIR BILLS

The big consumer news last Friday was that the University of Michigan's June Consumer Sentiment Index hit a seven-month low. Many scratched their heads, particularly since the CPI print earlier in the week came in flat and the economy appears to be firing on all cylinders.

But there's nothing like asking consumers how they're feeling about their personal financial prospects — and then comparing what they say to what they do — to get the true picture. And what we see is that the other consumer spending shoe is starting to drop.

We read the stories about millionaires shopping at TJX (who probably always did), and Walmart attracting more $100,000 income shoppers (maybe some of them always did too). But you get the point — it's now a headline because it seems more than a one-off.

At the same time, we see sales rising at recommerce sites such as The RealReal (after consecutive quarters of slowing sales) as shoppers at all income levels cast the net far and wide for deals, including those for someone else's designer duds at a favorable price point.

According to many recent research studies by PYMNTS Intelligence, we see trade-downs in merchants and brands across all income levels as savings diminish and credit card outstandings rise.

Trading down to cheaper brands was something that PYMNTS Intelligence data showed that nearly two-thirds of consumers were already doing in January. A little more than half of consumers said they were switching to cheaper merchants then, too.

Consumers take no solace in the month-over-month decline in CPI and the flat showing in June. Regardless of income, all consumers feel caught in the struggle between persistently high prices and moderating wage growth.

As I wrote in May of this year, those declines mean nothing to the average consumer who is paying roughly 20% more at the grocery store and the gas pump now than they did in years past. CPI data shows that since inflation began in March of 2021, prices have increased by 18.4%, with retail and grocery prices increasing by 19.3% and 20.7% respectively. Alternatively, average earnings have increased by only 16.1%[1] over the same period.

[1] Bureau of Labor Statistics, Current Employment Statistics Survey.

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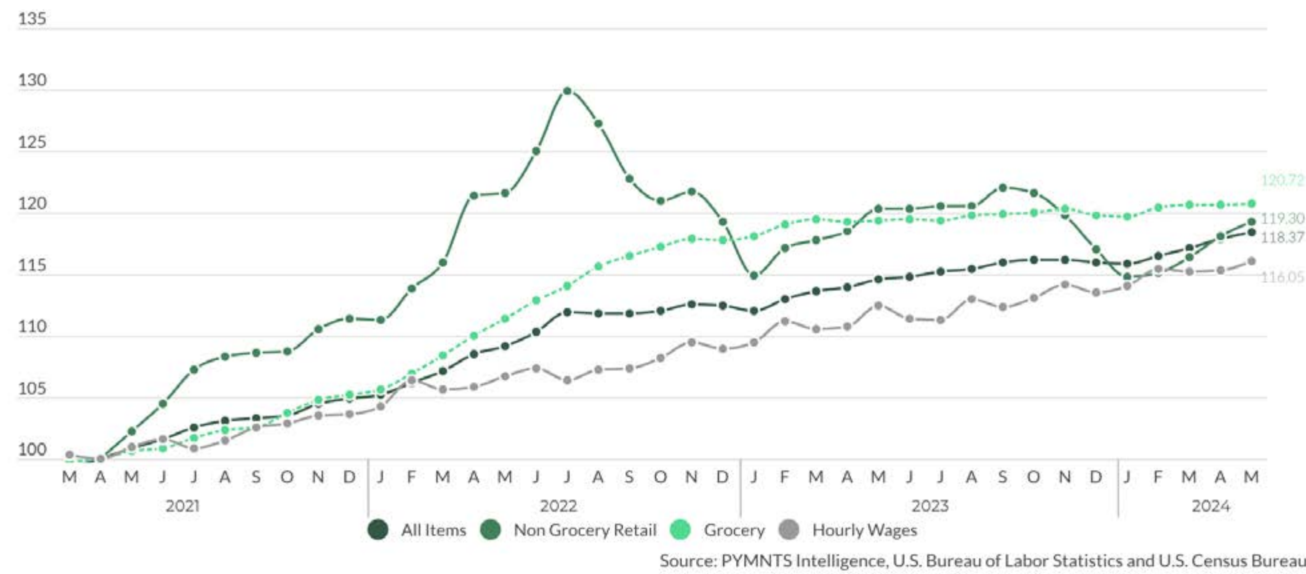

That squeeze is starting to pinch retail sales.

May 2024 retail sales were released this week. The headline numbers are somewhat misleading. During the first five months of 2024, retail sales, while up by 2.3% over the first five months of 2023, are mainly up in essential items like grocery and health-related purchases and at mass merchants. However, they are all down for the year for discretionary categories such as home furnishings, building materials and hobby and leisure products.

THE LOWER-INCOME CONSUMER SPOTLIGHT

Recent media coverage has focused on the stress points felt by the lower-income consumer earning $50,000 a year or less. As Sezzle CEO Charlie Youakim told me a few years back, this consumer is one who lives in a constant state of recession, so the price/income crunch is their status quo. In other words, they've gotten pretty good over the years at figuring out how to do more with less.

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But there is a bigger and potentially more meaningful story to be told — one where the usual tricks of the trade-off are becoming less effective.

One in ten U.S. consumers has an annual income of $50,000 or less, lives paycheck to paycheck and says they have issues paying their monthly bills. Not that they won't eventually pay them, but each month becomes a game of bill-pay roulette as consumers decide which biller can wait a little longer. Interestingly, of all household bills, utilities, insurance, mobile phones and credit cards make the monthly cut — the billers that carry a big downside risk if not paid.

That makes the current price/wage/inflation dynamic hit this consumer with a potential double whammy. Not only do they struggle to make ends meet every month, but they also worry most about their wage and employment security as the labor market shows recent signs of cooling and employment alternatives may not be as plentiful.

It's also a group of consumers whose ranks are swelling.

PYMNTS Intelligence reports a sharp spike in the number of consumers that fit this profile over the last two months — now reaching among the highest levels seen since we started tracking the paycheck-to-paycheck consumer nearly four years ago.

This is their story.

SIZING UP THE FINANCIALLY STRESSED US CONSUMER

It would be easy to stereotype these 27 million consumers as poor people who don't matter much to overall retail spend and GDP. That would be wrong.

These 27 million people represent 8% of all consumer spending. These are nurses, fire fighters, police officers, salon and spa staff, fitness instructors, teachers, the people who check you in at your hotel when you arrive, the independent truck driver who makes sure your packages arrive on time, the gig workers who deliver your groceries or take you to the airport, the people who cut your lawn and your hair, the sales associate at your favorite independent retailer,

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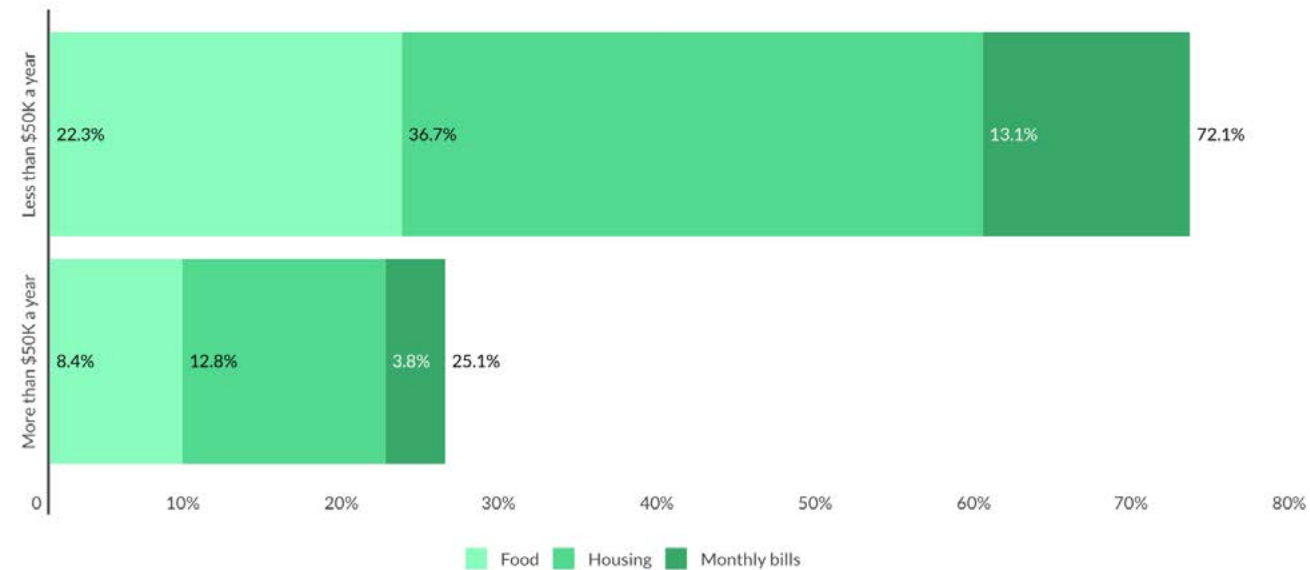

the freelance designer you hire to do your website.

In many ways, these are the consumers who help power the economic infrastructure of our cities and towns and businesses across America.

More of them have kids; fewer of them have a college degree. These consumers are not only trying to figure out how to stretch their dollars to buy what they need, but how to struggle with that and literally keep the lights on.

For people making less than $50K per year, just paying for food (25%), housing (37%) and their monthly bills (13%) now accounts for 72% of their monthly income. That's three times more than consumers whose annual income is greater. And there isn't much left over to buy anything that isn't necessary to run the household.

Or save.

The savings account balances for financially stressed consumers are 75% less than the average American household, some $2600 to the nearly $11,000 for the average American. Those lower balances make it more likely that an emergency expenditure, which PYMNTS Intelligence finds is closer to $1,400 than the $400 that the Fed continues to quote, could deplete most of it.

Given their monthly income constraints, savings likely come last when the expenses of daily life get in the way. And that seems more the rule than the exception. We find that the financially stressed consumer saves half as much monthly as those living paycheck to paycheck and comfortably paying their bills — so rebuilding those savings can take a lot longer.

The lack of a cash cushion means that these consumers are always living on a knife's edge. In the event of any financial emergency, they often lack access to credit, so are 30% more likely to be forced to sell assets or turn to family, friends or predatory lenders than the average consumer.

CASH ON HAND RULES

Unsurprisingly, financially stressed consumers use debit or cash to make most of their purchases — 27% more often than the average consumer — and more out of necessity than choice. These consumers are also highly leveraged, and their credit options are more limited.

PYMNTS Intelligence data finds that their credit cards are often declined at the point of sale — nearly one in every five times — for not having enough available credit to make the purchase. More than twice as many financially stressed consumers either struggle to pay the monthly minimum or pay nothing, as compared to the average consumer.

That makes purchases using cards more expensive and the ability to pay off their balances a challenge. As a cohort, 76% of financially stressed consumers revolve their monthly balances, compared to 48% of the average credit cardholder in the U.S.

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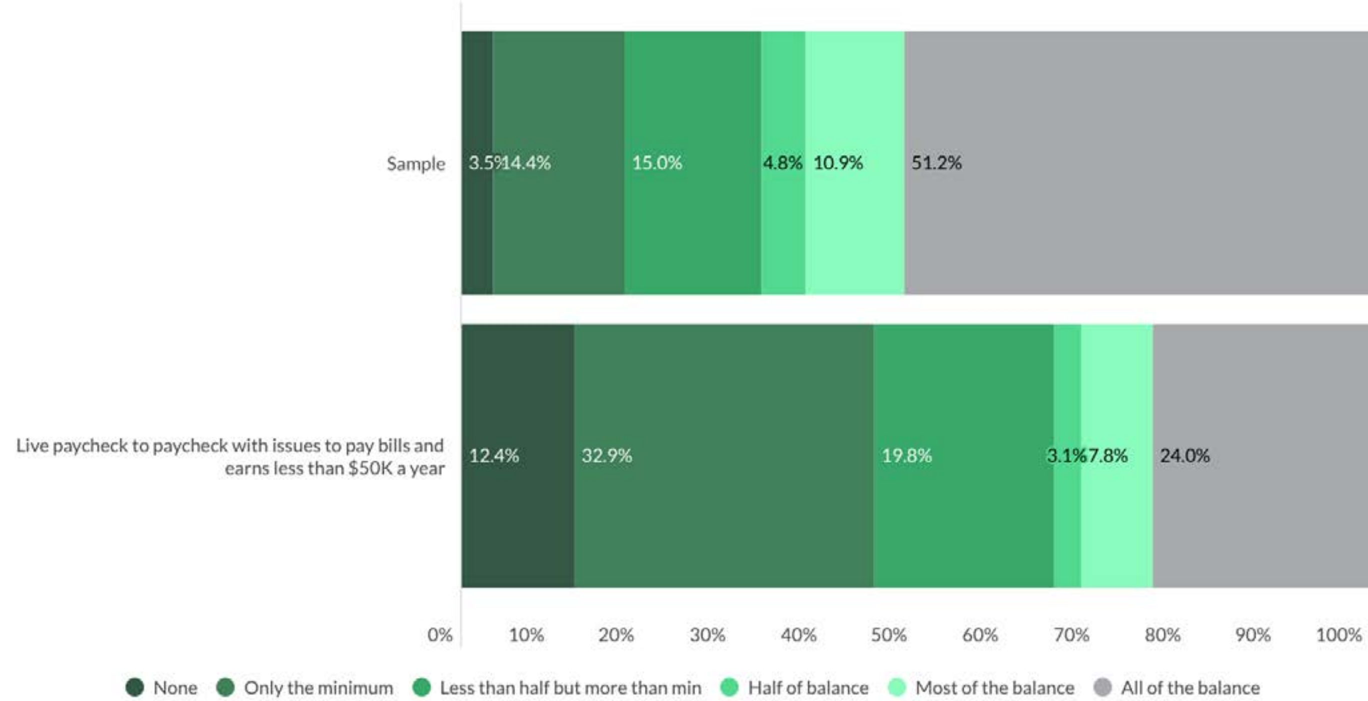
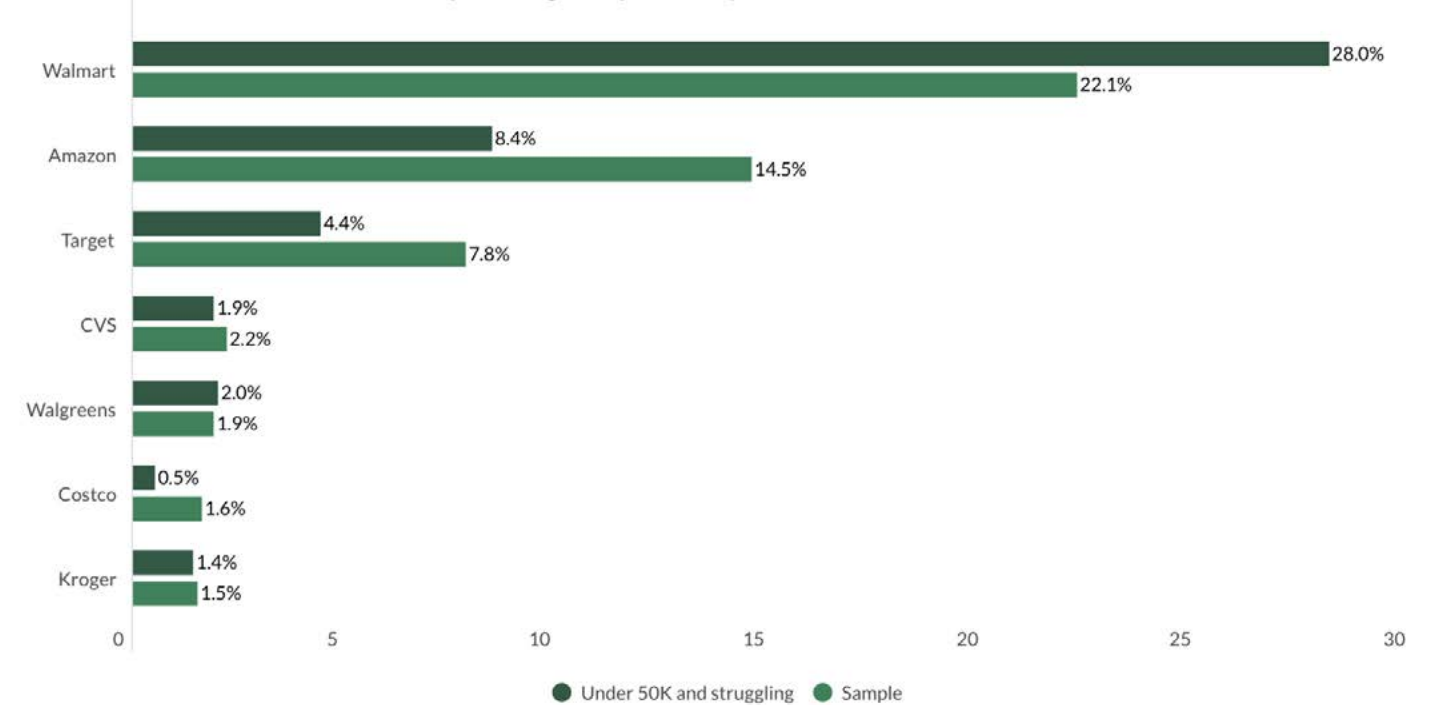
Figure 3
Monthly balance paid



Source: PYMNTS Intelligence
Consumer Credit Economy Monitor: Essential vs. Optional Spending, June 2024
N =2,016: Complete responses, fielded June 3, 2024 – June 13, 2024

Figure 4
Share of consumers whose last transaction purchasing retail products, by merchant



Source: PYMNTS Intelligence
Last transaction surveys, 2023
N: varies according to edition. Consumers who purchased non-grocery retail items in last 30 days, fielded over 2023

PHYSICAL STORES GET THEIR BUSINESS

Most financially stressed consumers choose to shop in a store rather than order online. They are willing to trade off the value of their time for the chance to examine products, compare prices and pay with cash on hand (debit or cash) at checkout.

Cash, as a payment tender, is used by this cohort 53% more often than the average consumer, and 2.3 times more frequently than high earners.

For financially stressed consumers, it is also their best budgeting tool. It's pretty straightforward to decide how and when and how much to spend money when the stack of bills in their leather wallets is a visible reminder of how much they have left to spend.

Financially stressed consumers are also much more likely to shop at Walmart, naming Walmart 28% of the time when asked the name of the merchant from which they made their most recent purchase; 27% more often than the average consumer.

FINANCIALLY STRESSED BUT HIGHLY CONNECTED

Across all income segments, consumers who say they are living paycheck to paycheck with issues paying their bills are more digitally engaged than those who are not.

It may be that these consumers rely more on their mobile devices and apps to find deals, compare prices, check their balances and scan sites for coupons to redeem at checkout to save money.

And to receive payments and do their banking. In fact, these struggling consumers use neobanks as their primary bank accounts more frequently than others. Currently, 14.5% of this struggling cohort say they use neobanks such as PayPal, Venmo, Chime, Ally and Cash App as their primary bank account. This is slightly higher than the 13.2% rate for the average American adult.

They use these non-bank wallets to send and receive money. PYMNTS Intelligence data shows the majority of service workers that receive tips

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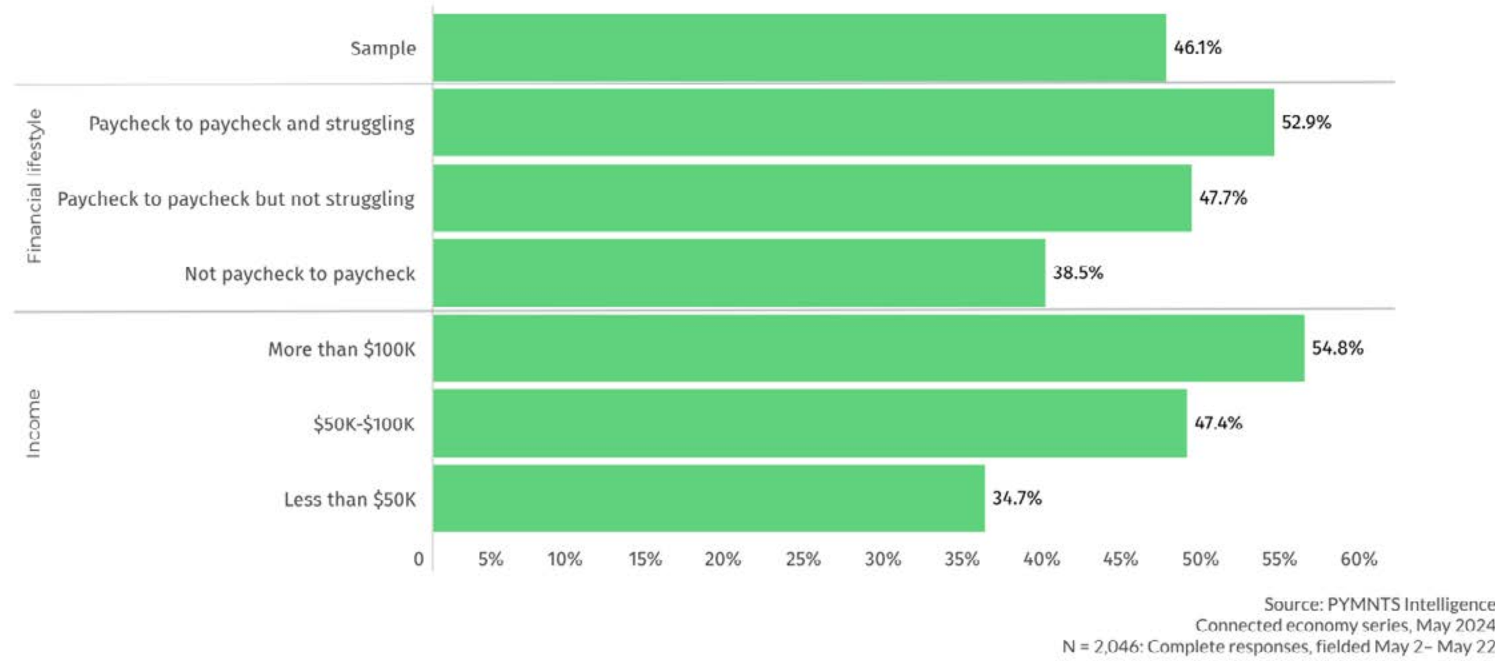
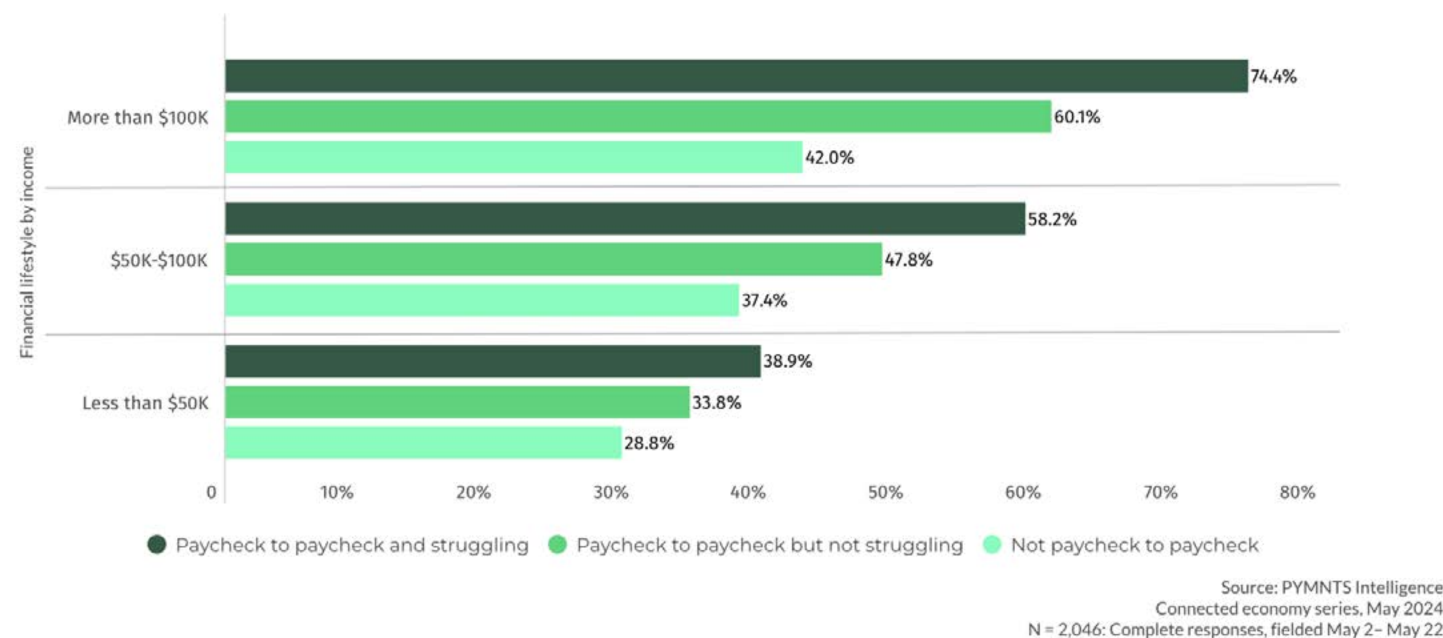
Figure 5A
Digital Engagement, by Financial lifestyle and Income



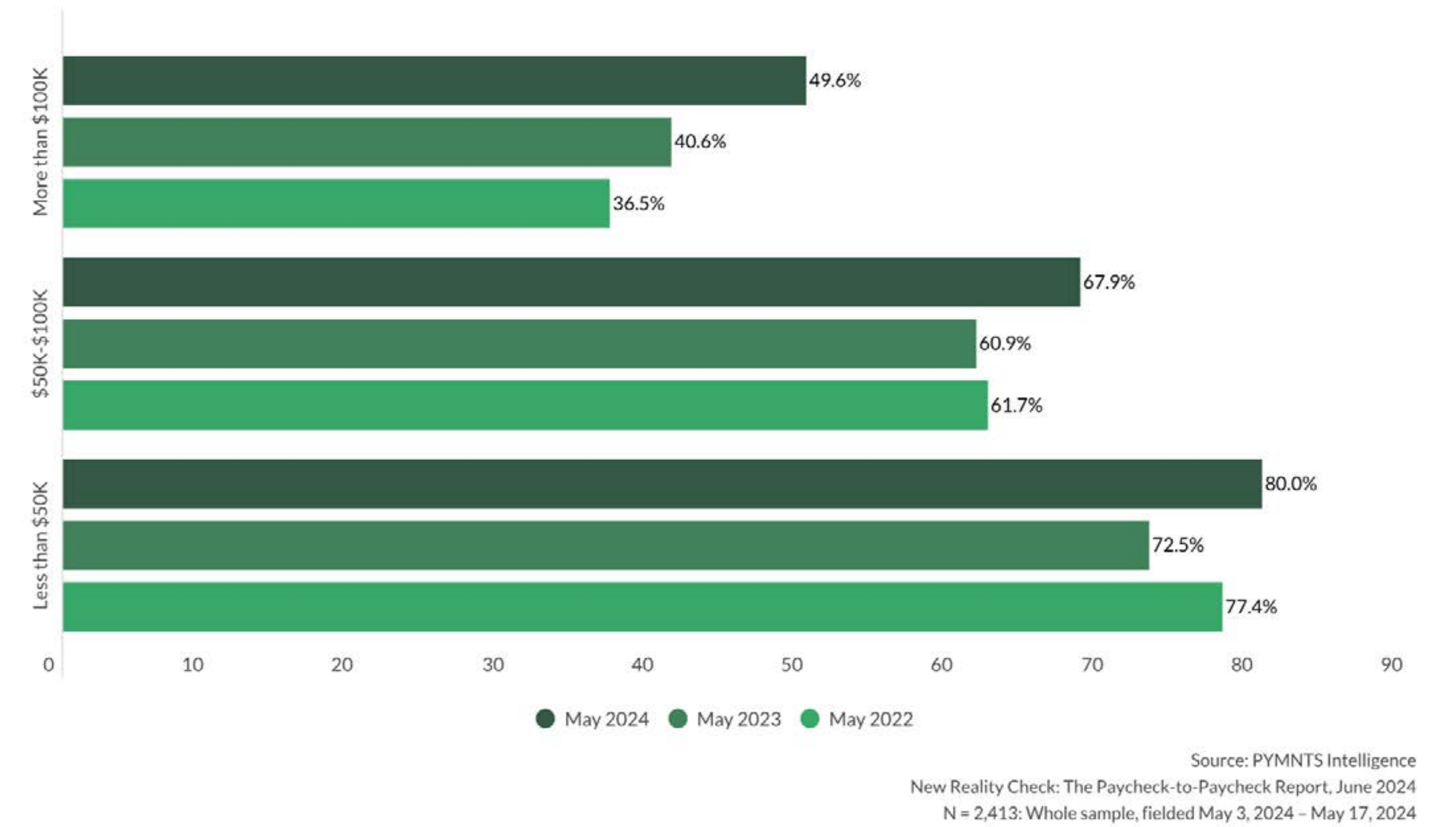
Source: PYMNTS Intelligence
Connected economy series, May 2024
N = 2,046: Complete responses, fielded May 2– May 22

Figure 5B
Digital Engagement, by Financial lifestyle and Income combined



Source: PYMNTS Intelligence
Connected economy series, May 2024
N = 2,046: Complete responses, fielded May 2– May 22

Figure 6
Share of consumers living paycheck to paycheck by income



Source: PYMNTS Intelligence
New Reality Check: The Paycheck-to-Paycheck Report, June 2024
N = 2,413: Whole sample, fielded May 3, 2024 – May 17, 2024

paid directly by consumers receive these tips in cash. However, 23% also receive some of these tip payments using digital apps such as Venmo, PayPal or Cash App accounts.

THE PAYCHECK-TO-PAYCHECK CONSUMER

Financially stressed consumers aren't the only ones who live paycheck to paycheck in the U.S.

The PYMNTS Intelligence team has been tracking the behaviors of the paycheck-to-paycheck consumer since March of 2020. We've done that by breaking consumers into three distinct cohorts based on how consumers describe the struggles of their financial lifestyle: Those who live paycheck to paycheck with

issues paying bills; those without issues paying bills but who need their next paycheck to manage their household bills; and those who say they do not live paycheck to paycheck.

Today, 65% of the U.S. population lives paycheck to paycheck, the highest share we have seen in two years.

Eighty percent of consumers earning less than $50,000 annually say they live paycheck to paycheck. More than two thirds (68%) of those in the middle-income range, those earning between $50,000 and $75,000, and 49% of those earning over $100,000 say they do, too. In fact, even 34% of those making over $200K per year also live paycheck to paycheck.

In May 2024, we also find that slightly more than one in five U.S. consumers (21.2%) report living paycheck to paycheck with issues paying their bills.

The 27 million financially stressed consumers you've just read about represent nearly half (48%) of this paycheck-to-paycheck cohort that also earns $50,000 a year or less. Twenty-one percent of them are Gen Z.

These 27 million consumers would love nothing more than to reduce the daily stress that comes from worrying about making ends meet. Innovators and their investors would love nothing more than to find an addressable market where new technologies and data can deliver a compelling product for a willing buyer who can become a loyal customer.

Perhaps this financially stressed consumer — most often overlooked — is a compelling opportunity to improve the shopping, payment and savings experience using apps and the mobile phone. The chance to optimize these finance essentials might be a payments and commerce blue ocean.

Yes, but it's a tricky group to serve. They are price- and fee-sensitive. To be successful, products and business models must consider levers other than interchange fees to drive scale and profits.

We see FinTech banking, shopping and payments apps stepping in to fill the void with new product offers and bundled products and capabilities that create better economics for themselves and

the financially stressed consumer they serve. Embedding products into platforms with a critical mass of these consumers can reduce customer acquisition costs, provided the value proposition is aligned, as they build their own. Innovators are blending payments and savings capabilities into a single product for financially stressed consumers. Pay in 3 or 4 provides short term, small dollar credit to help consumers manage their monthly budget, build credit and buy what is needed for themselves and their families.

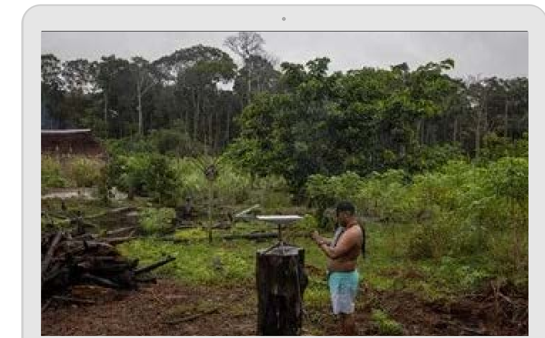
For these consumers, innovations in how they spend, shop, pay and save aren't just a nice-to-have. And they can't come soon enough.

June 24, 2024

WHY THE CONNECTED ECONOMY ISN'T

The 2,000 members of the Marubo tribe were among the most disconnected people on Planet Earth. A people whose roots span many centuries, they live in a part of the Amazon rainforest in Brazil so remote that it is said to take a week or more to travel from one village to another. The Marubo ecosystem is communal and self-contained with its own language, religion, culture and economy.

I say "were" because in September 2023, Elon Musk's Starlink satellite brought the internet to this tribe — and with it, the ability to experience life outside their closed ecosystem. Since then, as reported by the New York Times, many have purchased cheap smartphones with government benefit checks. They use them mostly to play games, communicate with friends and family outside their remote encampment and scroll social media sites.



Some Marubo villagers, mostly the younger ones, use their newfound connection to the internet to monetize their skills, leveraging apps to connect them to a new world of potential customers. Others see it as a one-way ticket to a new life away from the tribe.

It's reported that elder members of the tribe worry about the internet's potential to distract younger members from doing their daily chores, including essential ones like hunting food for dinner. (Elder disdain for mobile phones and apps must be hard-coded in human DNA.)

But even they say, "Don't take away our internet."

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The New York Times reports that there are 66,000 active Starlink contracts throughout the Amazon rainforest in Brazil, which connects 93% of the cities, towns and villages that dot its riverbanks. Solar panels provide the power needed to operate the satellites and deliver the world to the people living there.

Today, about a third of the world's population remains offline, including 5% of the U.S. population living in rural areas for which there is no internet coverage. The ability to provide low-cost, fast and reliable service to remote parts of the world creates the foundation for a truly global, digital and connected economy.

It's amazing, but only the first step to their digital transformation — and that of the global economy at large.

THE CONNECTED ECONOMY JOURNEY

Three decades after the start of the commercial internet, most of the world is connected to it — and most people have mobile devices that enable access to it.

Yet the world remains in the very earliest innings of realizing the full potential of the connected economy that consumers and businesses say they'd like to have, that business leaders and innovators say they are committed to delivering, and that I have been writing about since January of 2020.

> Too much of the digital transformation to this point is digital — **but not exactly transformational.**

Yes, we have apps that allow us to start a transaction in the online world and fulfill it in the physical world. We can keep up with friends on social media, impulse buy on TikTok or Insta and one-click checkout on many mobile and online stores.

Consumers have more opportunities to skip the physical world altogether by streaming concerts, or by interacting with their friends inside of their game consoles in their living rooms. They can now cash or deposit paper checks on their mobile phones instead of standing in line at their traditional bank. And they can find a date without going to crowded bars.

These experiences deliver extraordinary convenience because apps and mobile devices have shifted those time-consuming activities online.

Creating experiences that connect discrete digital activities within new connected ecosystems is a work in process. Truly making the physical world a contextual part of a digital experience remains largely untapped.

Too much of the digital transformation to this point is digital — but not exactly transformational.

It's one of the greatest opportunities for innovators and business leaders to seize as they write their strategies for the rest of this decade and well beyond.

That's particularly true for some of the largest segments of the global economy like healthcare, retail and financial services, where innovations that fully integrate the on and offline worlds will be necessary as access to (and the cost of delivering) a skilled workforce faces enormous pressure.

THE CONNECTED ECONOMY IN 2024

On Wednesday, June 26, 2024, PYMNTS Intelligence will release the results of a landmark global benchmarking of the digital engagement of consumers living in 11 countries that represent 50% of the global GDP. The How the World Does Digital report includes the U.S. and the U.K.; the five largest EU countries — France, Germany, Italy, Netherlands, and Spain; and Australia, Japan and Singapore in the Asia Pacific.

The nearly 60,000 consumers studied in 2023 are statistically representative of about 800 million people living in those countries. The report analyzes the digital behaviors of this population across 40 different activities involving how they **work, live, pay, shop, eat, stay well, have fun, communicate, travel** and **bank**. 2023 is the third year in which PYMNTS Intelligence has conducted this global study; some 180,00 consumers have been studied, all told.

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What we present in this report is a snapshot of the connectedness of the global economy **at this moment in time for the activities that are done digitally by people in these countries.**

We know that these 40 activities will expand as more physical-world activities become part of the digital transformation of the global economy. What we present in this report is a snapshot of the connectedness of the global economy at this moment in time for the activities that are done digitally by people in these countries.

In 2023, we find that just about everyone was engaged online or via their mobile devices in at least one of those 40 activities monthly. We think that's important, especially given the geographic diversity of the populations studied.

Not to mention the fact that consumers, en masse, left their homes to transact more in the physical world last year. That's why we consider the 2023 report critical to understanding the global, digital landscape and how it is evolving.

We find — ironically, perhaps — that the common activities across all the geographies studied are largely identical to those that the Marubo tribe members gravitated to immediately upon their newfound access: playing games, messaging friends and family and hanging out on social media sites.

Those activities have been part of the digital landscape ever since mobile phones and apps became a part of our lives in 2007/8 and digital devices purpose-built for gaming and computers capable of connecting to the internet provided access to gaming and social media years before.

Those user experiences have improved over time because competition for attention and eyeballs cause developers to double down on innovative experiences — and because there are existing networks of people and businesses to connect with.

There are many places, though, where we find digital engagement either lacking or waning for one of three reasons:

- The generational digital divides are enormous everywhere.
- Many digital activities that could be adopted aren't probably because the clunk isn't worth the squeeze.
- Regulators and lawmakers have imposed requirements on providers that degrade the appeal of a connected experience that consumers like and use.

IT'S NOT YOUR GRANDMA'S CONNECTED ECONOMY

I doubt many of you would be surprised to learn that Gen Z is way more digital than their parents and grandparents, regardless of the country in which they live. More than twice as engaged, in fact.

Maybe some of you might be if I said that there isn't that much of a difference in how Gen Z and Boomers living in those 11 countries use digital and mobile channels to do their banking.

But I am willing to bet that very few of you would correctly guess which country of the 11 has the most engaged Gen Z population. It's a shocker. I'll keep you in suspense until Wednesday. Let's just say that it offers a clear imperative for how to address some of the economic issues facing that country.

I am willing to bet that very few of you would correctly guess which country of the 11 has the most engaged Gen Z population. **It's a shocker.**

If you have a guess, reach out to me on LI and I'll give you a thumbs up or down on what you pick.

And therein lies one of the biggest impediments to delivering a fully connected global economy — getting all members of the population on board, especially the older generations. It's something that will become more necessary as people live longer and have more of a need to stay connected to the physical world using digital methods.

One way to clear that path is through a wholesale reset of the one activity that almost no one in our study engages with digitally anymore — but almost everyone does at least a

couple of times a year in the physical world.

Going to the doctor.

THE PRESCRIPTION FOR A HEALTHY AND CONNECTED ECONOMY

Like me, I am sure that many of you used a telehealth provider during COVID. It was the only way to see a doctor at one point during the pandemic, and a preferable one even after the pandemic began to subside.

Today it remains one of the most underused digital activities, globally, for some of the same reasons that you probably haven't had a telehealth appointment in the last year: It has a pricey copay, and often you end up having to see the doctor anyway.

> It's a massive part of the global economy **waiting to be transformed.**

Boomers and seniors use it very little, preferring to visit the doctor's office. They have the time and want the reassurance of being seen and examined there. But that's largely because there is no digital alternative that they — or anyone else according to our study — trusts to be as good or better.

Patients can use digital channels to access their medical records, make appointments, order prescriptions and have them delivered and pay their bills. The lack of access to diagnostic devices in the home that measure (and monitor) vitals make telehealth an unsuitable alternative to seeing a doctor in person right now.

It's a massive part of the global economy waiting to be transformed.

THE VOICE DOESN'T NECESSARILY HAVE IT

There are apps and connected devices for the home to control the lights, temperature, curtains, door locks and garage doors, and smart ovens that expertly cook food. Aside from the tech enthusiast early adopters, most consumers don't use them. Many of these devices are still hard to use, don't feel essential, and are expensive to boot.

Voice plays a big role in enabling a smart and connected home experience. Although voice-enabled speakers occupy the kitchen countertop and living room end tables in a small portion of the homes of the consumers studied, most don't use them or even as much as they once did.

Perhaps that's because more people are out of the house and back at work. Or most people find that there's a gap between how people would like to use them and their capabilities today. Right now, they are a long way from the Gen AI-powered assistants we're being promised, the ones consumers say they would even pay to use.

WHEN REGULATORS RAIN ON THE CONNECTED ECONOMY'S PARADE

One of the more common digital activities across the 11 countries in the study is the use of gig platforms to get rides and order restaurant food, groceries or retail items for delivery to their homes on demand. These platforms have built their businesses by matching and monetizing customer demand with driver supply at price points that consumers and drivers find acceptable. They rely on people with some spare time, and vehicles with some spare capacity, at the right time to match up with people and businesses that need something delivered. They are the glue that neatly binds the digital and physical worlds.

Many of these platforms have also created connected experiences within them. Uber now reminds me that I can order food from Eats while at the airport waiting for my plane, and at the hotel when I land — right after reminding me to book my ride back to the airport the day I am scheduled to fly home.

Unfortunately, some countries have labor laws or other regulations

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that make it difficult to use people who would like to supply their services part time when they are needed this way. Other countries and cities are adopting regulations, including minimum wage laws and requirements that gig workers be full time. That makes it hard to give work to people who have unpredictable portions of their time available to do these jobs.

> The reclassification of gig workers as employees has resulted in **higher prices for consumers, and fewer trips (and tips) for the drivers.**

This has been a real problem in many European countries and is becoming an increasing one in the U.S. The reclassification of gig workers as employees has resulted in higher prices for consumers, and fewer trips (and tips) for the drivers. According to the Wall Street Journal, Seattle will roll back its requirement to pay gig workers minimum wage after reports that Uber Eats orders dropped 45% last quarter from a year ago (and obviously so did driver pay).

Drivers may be making more on an hourly basis with the new minimum wage requirements, but taking home less since there is a diminishing demand for their services.

New York is the latest State requiring gig platforms to pay workers a minimum of $19.56/hour, up about $16 from the end of last year. Massachusetts has it on the ballot. Platforms are passing on the extra costs to the consumer as a surcharge — it's either that or run in the red.

That will make the gig experience — which consumers all over the world like and use — more expensive and less accessible thanks to government regulation.

THE CONNECTED ECONOMY'S PATH

One of the big takeaways from the 2023 How the World Does Digital report is the huge potential for embedding digital into the day-to-day routine activities of consumers regardless of where they live — including the once-isolated parts of the world. With connection comes innovation and the opportunity to expand people's economic wellbeing.

Since 2020 we've fast-tracked our shift to digital, whetting the appetites of an enthusiastic consumer with access to the connected economy, and making the transition between the physical and digital worlds seamless, secure and always on. We've seen innovators use technology and payments to power new experiences, laying the foundation for the transformation that is on the horizon.

On Wednesday, you'll get the full scoop — and the big reveal of which country is the most digitally connected one of those we studied. And where, across all of them, the opportunity to innovate — no, transform — those experiences is waiting.

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July 11, 2024

DOES AMAZON NEED SAKS GLOBAL TO CONQUER LUXURY RETAIL?

Amazon turned 30 on July 5th and did something that nearly 70% of all women also say they do on their birthday: They bought themselves a present.

On July 4th, the day before their three-decade birthday milestone, it was announced that Amazon would take a minority stake in the new luxury department store confab Saks Global. The $2.65 billion acquisition of Neiman Marcus by Saks will create that single luxury department store platform combining the 39 existing Saks stores, the 36 existing Neiman Marcus stores and the two Bergdorf Goodman flagship stores in New York.

At least, that's the size of the footprint right now.

We don't know how much of a birthday splurge that stake was for Amazon — details about total dollars invested were not disclosed.

The acquisition isn't exactly a news flash. Saks and Neiman's have been doing the acquisitions dance for more than a decade. Their private equity investors wanted an exit after taking Neiman Marcus private in 2005 for $5.1 billion. Neiman's filed for bankruptcy in 2020, blaming COVID for at least some of its poor financial performance and using the filing as an opportunity to retire debt and streamline operations.

Rumors floated again a year ago that an acquisition was in the offing, but the deal collapsed at the end of the year over price. Whether the Amazon stake and its potential to add shareholder value longer-term got Neiman's over their previous sale price hump is unknown.

So, too, is whether even Amazon can save these once larger-than-life iconic luxury department stores from their largely self-inflicted demise.

The head of Saks eCommerce says Amazon will accelerate the path forward for the merged entity. Geoffrey van Raemdonck, the CEO of Neiman Marcus, says that Saks Global (the new entity which includes Amazon's minority stake) will create greater efficiencies through a more streamlined inventory management and more favorable (read tougher) negotiations with suppliers. That people still love going to the store to touch and feel the merchandise and interact with salespeople.

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That luxury buyers are still buying.

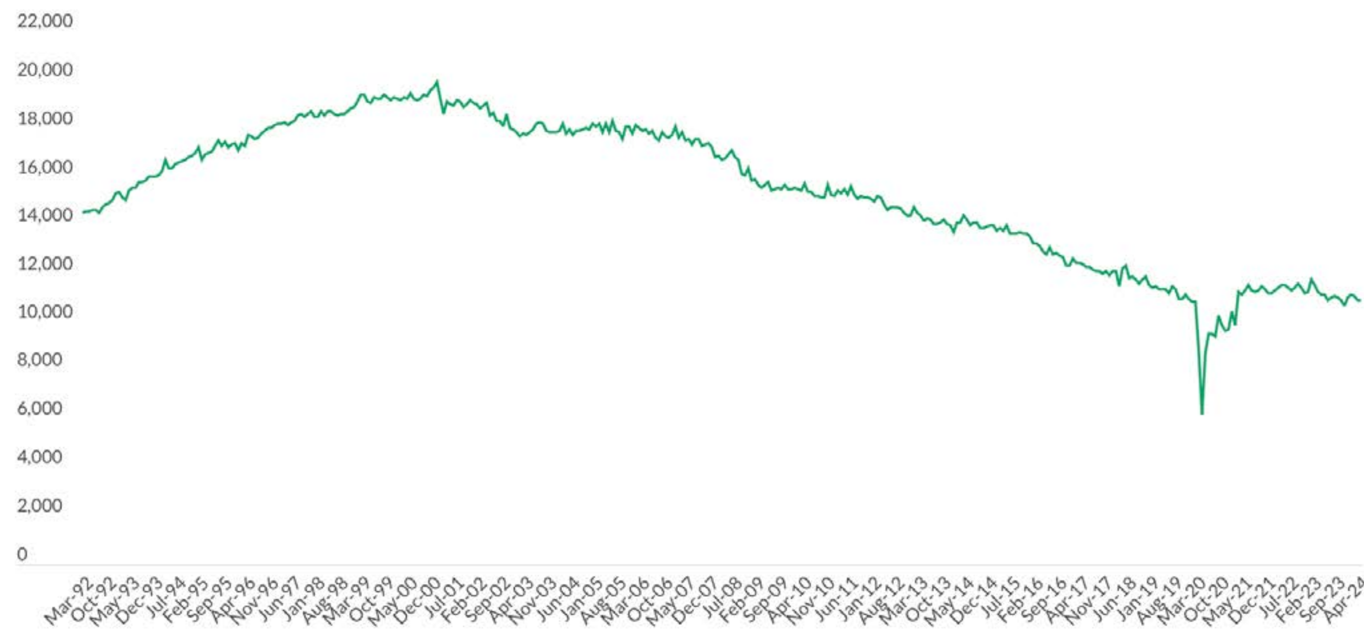
Maybe. Lately, even wealthy buyers have become more discerning.

But when they do shop, they don't seem to be beating a path to department stores. Looking at this chart from the St. Louis Fed suggests a different, more sobering, department store reality.

Department store sales are 50% below their peak in 2000, and 30% below where they were in the 1980s. The 80s, as in 40 years ago. It's hard to understand what people mean when they say, "department stores are back." Back from what, exactly? Coming back from zero sales during COVID to levels which don't even match sales made four decades ago is hardly a comeback story worth writing.

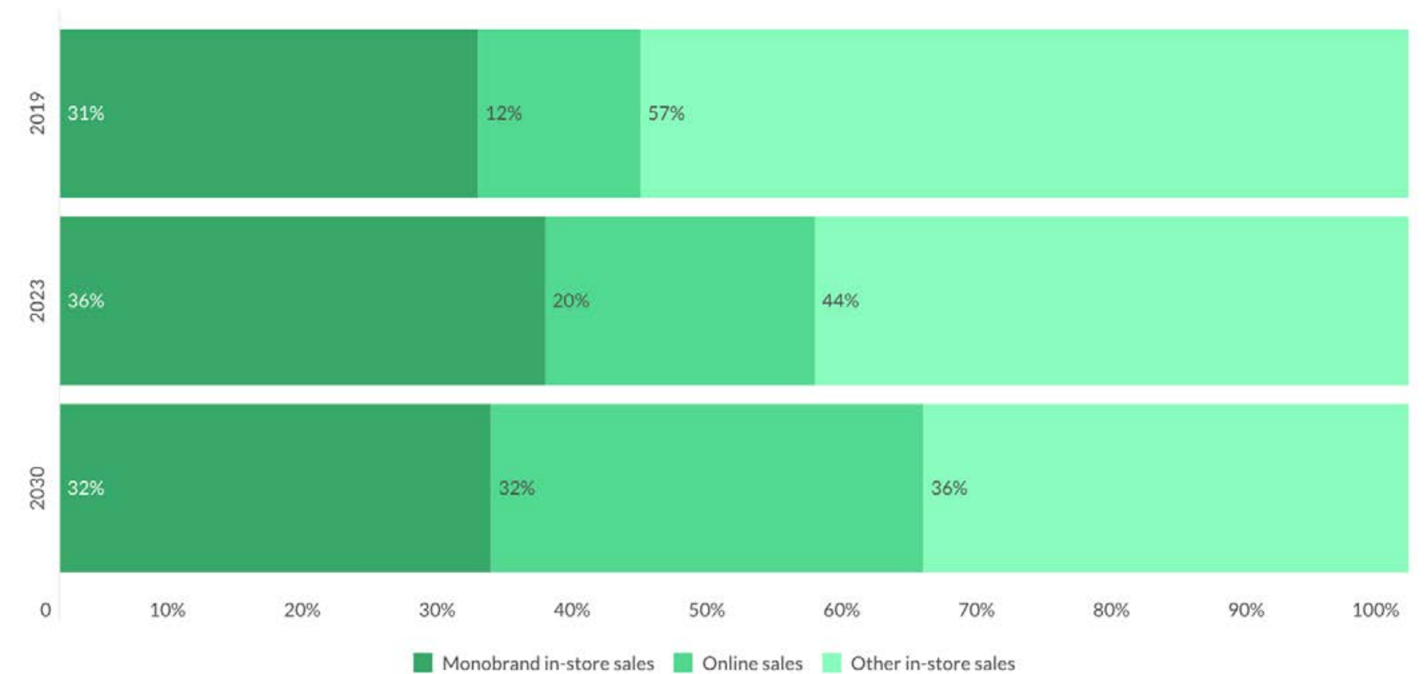
"But things are looking up," proponents of the department store model still say. Not really. According to Collier's April Real Estate barometer, foot traffic to department stores in April rose 5.1%, but sales fell 5.3%. People are walking into department stores but walking out empty-handed — as it seems they have been for nearly a quarter of

Figure 1
Monthly department store sales in millions of dollars, seasonally adjusted



Source: U.S. Census

Figure 2
Personal luxury goods market, by sales channel



Source: Bain-Altagamma Luxury Goods Worlwide Market Study, Fall 2023

a century. In fact, annual sales for department stores are down by 22% over the 10-year period from 2013 to 2023.

Now, whether Amazon's minority stake in Saks Global becomes an opportunity for two desperate luxury retail department chains to think and act more like Amazon by streamlining logistics, inventory and supply chain operations — or whether it is the equivalent of a last-ditch retail Hail Mary pass — won't be known for a while.

Neither will Amazon's real interest in Saks Global.

Maybe they want a ringside seat into the ins and out of a retail category where Amazon doesn't have much of a presence right now — but could over the next five years. To learn the ropes, the relationships, the frictions. The role of the physical store in luxury retail's future. According to Bain, the share of luxury goods sold online is expected to reach nearly a third of all luxury retail sales — taking most of that share from the department stores — up from low-double-digits five years ago. The future is trending digital.

Or perhaps Amazon wants a better understanding, more generally, about why, after thirty years of raising the expectations for the consumer retail buying experience, Census still reports that 84% of retail sales still happen in the physical store.

Where innovation has stagnated for at least as many years.

Where data about the share of online versus physical retail sales is about as clear as mud and easily misinterpreted.

But where there's an opportunity to (finally) reinvent the retail model by making the physical store an extension of the digital experience. Where the physical store remains relevant, but maybe not so much for shopping.

PHYSICAL RETAIL'S INNOVATION DESERT

If I asked you to name the biggest innovations in the physical retail shopping experience over the last thirty years, what would make that list?

For most people, the innovations that are top of mind are those that give consumers a way to avoid going into the store.

Buy online, pick up in store is the granddaddy of omnichannel, getting its start around 2007. It got its true digital mojo in 2020 as the world was in the throes of COVID and more retailers were forced to get on board. Today, globally, PYMNTS Intelligence finds a marked increase in that use case, with 9.2% of the U.S. consumer population using buy online, pick up at the store when shopping for groceries.

Retail is slightly higher, at 11%, but also often comes bundled with the not-so-veiled (and friction-filled attempt) to bring consumers into the store to fetch their bundles. In Boston, the Saks buy online, pick up in store experience consists of schlepping to a counter in the way-back corner of the second floor. Quite often, the buy online, pickup experience comes with a wait of a few days, which seems to miss the point of buying something online and picking it up in the store the same day.

Instacart gives consumers digital tools to shop the entirety of physical grocery store using their app. It could be a store where they always shop, or maybe the one that catches their interest but is too far away to be practical. Shoppers still shop at the grocery store, but they work for Instacart, and push shopping carts filled with stuff to be delivered to Instacart users.

Retail subscriptions, including Amazon's Subscribe and Save, are shopping innovations that move the weekly or monthly essential purchases online — maybe forever. Consumers can now subscribe to everything from laundry detergent to canned garbanzo beans to face cream to white T-shirts and get those items delivered on a schedule for free.

You get the point.

Innovations inside the store that make shopping more convenient don't come easily to mind. No one marvels at the wonders of self-checkout. Even the no-checkout checkout seems to have gone nowhere. The Amazon Go experiment in 2018 was hailed as the coolest thing ever — until Amazon announced the closure of 8 of its 28 owned Amazon Go stores six years later. The new plan is to license the tech to 125 other retailers who've yet to fess up that they're using it.

There was a time when going to the store to shop was fun, interesting, serendipitous — but it has become an exercise in uncertainty. And consumers who hate uncertainty have turned to the online experiences that offer a more predictable outcome.

It's also why years of analyzing shopper satisfaction find that the in-store shopping experience is the least satisfying of all — with department stores topping that list, as the Fed data shows.

So why does the government report that 8 in every 10 retail purchases happen in physical stores?

I call it the Census Retail Data Iceberg Problem.

THE CENSUS DATA RETAIL SALES ICEBERG

The published Census Data on retail sales is a bit like an iceberg. What you see on the surface may not look that bad. The real danger sits below the surface, where the extent of the damage isn't felt until it's too late.

Right now, the Census reports that 84% of retail sales still happen in the physical store.

Retailers often laugh nervously when hearing these data. They hope it's true, but staring at the reality that is their day-to-day tells them that it isn't, for most of the big ones. They see and sense the danger below the surface, the impact of which is only getting stronger.

The PYMNTS Intelligence team has tracked the share of online versus physical retail sales for most of the last decade. That team doubled down on benchmarking that shift in 2020 and has monitored the acceleration and permanence of retail's move online ever since. We do this by fielding national monthly and quarterly surveys of statistically significant consumer populations, producing results at a 95% confidence level.

In the U.S., we find that even as consumers have returned to the physical store, online sales are 0.4% higher than they would have been, absent the pandemic. This amounts to an incremental $28 billion in sales that are now online and no longer made in stores.

To understand the impact of that shift, and the true picture of online and physical store sales, one must examine the performance of individual retail segments.

In other words, the iceberg below the surface often doesn't get as much airtime.

THE DANGER IN THE DATA BENEATH THE SURFACE

When Census publishes reports stating that 84% of retail sales happen in the physical store, those data include reporting across 12 retail segments, including clothing and personal care stores, and a lot of other categories too, like gas and groceries.

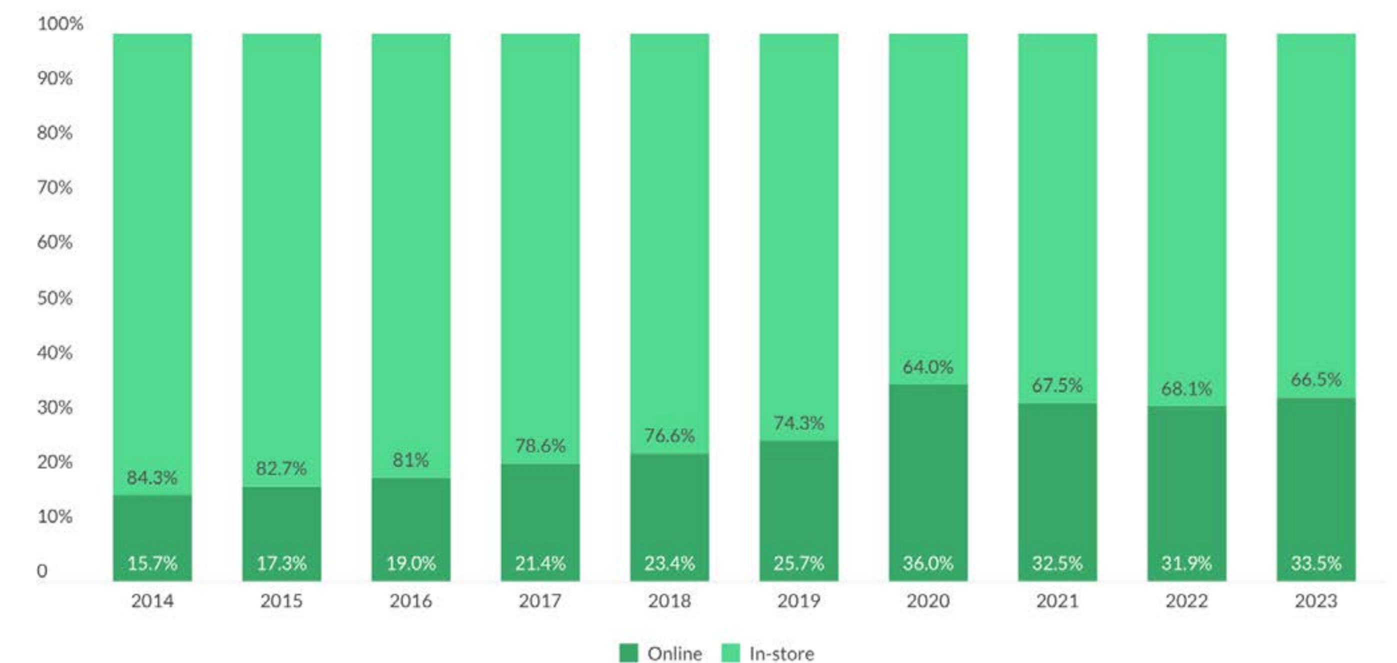
Removing them from the retail sales tally, the online versus physical retail sales divide looks a little different. The share of retail sales made online becomes 19% of retail sales.

Examine just apparel and accessories, and the data looks different still.

PYMNTS Intelligence data estimates find that 34% of clothing sales were made online last year, double the 16% made online just a decade ago. That's slightly more than a third of clothing and apparel sales, for all of you keeping score at home, and only increasing. It starts to put the department store sales cliffhanger in a different perspective.

Even for groceries, where 99% of all grocery sales happened in the physical store pre-COVID, we observe that 39% of consumers buy some of their groceries online today. There is no reason to believe that shift won't continue.

Figure 3
Share of U.S. clothing and accessory sales by channel



Source: PYMNTS Intelligence

HOW THE GENERATIONS SHOP

The generational shopping divide is even more telling.

Not surprisingly, the older the consumer, the greater the importance of physical retail, especially when purchasing clothing and accessories. There's only one problem: they do that half as often as their kids and grandkids.

The younger the demographic, the more digital shopping becomes the preferred channel, their norm and their expectation of a user experience, even in a store.

The emergence of the Click-and-Mortar™ shopper, an insight gleaned from a six-country PYMNTS Intelligence study of shoppers and merchants commissioned by Visa Acceptance, finds that consumers want the same digital experience when shopping in the physical store as when shopping online — and especially when buying clothes. More than a third of all consumers participating in the study fit that profile. In the U.S., that share of consumers is 30%.

For these shoppers, physical is simply an extension of the digital experience that's become second nature. Another place, not the only place, to go when they need or want something to buy. And when inside the store, they expect the same digital features — product reviews, price comparisons, promo codes, payment options.

The one thing that younger and older shoppers share is that fewer of their feet cross store thresholds. The bad news for retailers is that fewer younger feet today means many, many fewer younger feet, with the loss of their spending power, tomorrow.

Let's hope that the Amazon and Saks Global tie-up starts a conversation around the retail watercooler about a shopping experience that doesn't start with the store and simply tinkering with the retail status quo.

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SCRATCHING THIRTY-YEAR RETAIL INNOVATION ITCH

Maybe it's taken 30 years for retail more generally, and department stores specifically, to come to grips with the reality that they've lost their grip on shoppers. It took the sector a good 15 years — half that time — to admit that shopping online was more than a one-off. The Census Retail Data Iceberg is partly to blame.

It's not just Saks and Neiman's looking for the big retail reset — all department store retailers want the magic elixir. Macy's new CEO has proclaimed a bold new chapter, including shuttering a slew of stores to improve operating margins. The Nordstrom family is said to be contemplating going private, again. Bloomingdales is putting their efforts into small store formats. Neiman's just offered me a free night at a swanky hotel if I book a three-night stay.

The same stores, but smaller. Events in stores. VIP Membership and experiences. More of the status quo. Nothing that breaks the current retail model and reassembles it around shopping, not shopping channels.

Saks Global seems to believe, at least in part, that gaining efficiencies in the back of store can lay the foundation for a better customer experience in the store. That complex functions like inventory management, logistics, payments, rewards and distribution can best be accomplished collaboratively rather than building and maintaining those capabilities retailer by retailer and store by store.

That's certainly true. For Saks Global, outsourcing logistics and distribution capabilities to Amazon could make it easier to move products between stores, to deliver products the same or next day — which could, itself, be a gamechanger.

But Amazon didn't have to take a minority stake in Saks Global to get that deal.

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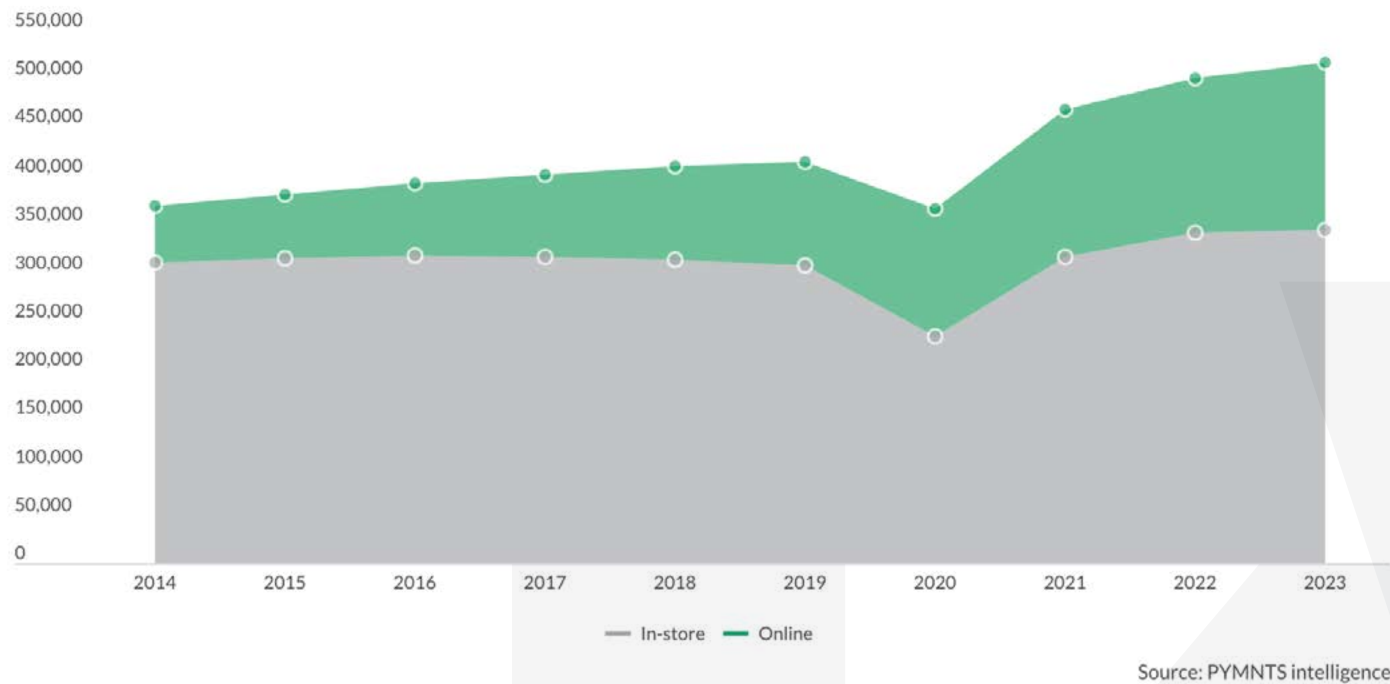
Figure 4
Annual consumer spending on clothing and accessories by channel, in millions of dollars



Source: PYMNTS intelligence

THE AMAZON EFFECT ON LUXURY RETAIL

How much of a role Amazon might play in executing a newly-formed Saks Global vision is unknown. Retailers have been unsuccessful at reinventing their future on their own and could use the help.

Amazon comes to Saks Global with a retail pedigree of its own: its sales of apparel and accessories are $23.6 billion in Q1 2024, accounting for 16.1% of apparel sales, and 0.5% of consumer spending, according to the latest PYMNTS Intelligence data.

That makes their apparel sales larger than Walmart's and Macy's. The last PYMNTS Intelligence data from July 1st finds Amazon's share of online retail sales at 47.7% of all online sales.

Selling luxury brands on Amazon hasn't mirrored that success. Brand selection is quite limiting. The consumer experience is also less than luxurious. Dropping a few thousand dollars on an Oscar de la Renta dress right after putting olive oil in my shopping cart seems weird.

What seems to have resonated is Amazon's offer to ship clothes to consumers who can either keep or return before having to pay. Social media influencers have branded storefronts on Amazon to style and sell curated outfits sold on Amazon. They and their followers can have a conversation about fashion on social channels, and consumers can buy those products on Amazon to get the next day or a few days later.

There's also the opportunity to voice-activate the retail — and the luxury retail — experience in new ways. I remember asking an Amazon exec right after Alexa was introduced when I might be able to use her as my shopping concierge. My use case: Asking Alexa to use my Amazon Pay account to purchase a jacket or a skirt in my size from an ad without having to go to the retailer's site.

Let's just say… I'm still waiting.

But it's not as crazy as it sounded ten years ago.

In a world of embedded payments, GenAI, enabling tech and logistics expertise, one can imagine the physical store as a staging ground, organized around the convenience of the shopper and not the store hours. Shoppers in the physical store assemble and send outfits curated by stylists to a shopper's home, much like Instacart shoppers do when buying groceries for their users. Video chats with sales associates in the store in real time could offer styling lessons and feedback on what looks good or what to mix and match with what. Items can be added or exchanged and delivered same or next day without the trip to the store. Influencers could even assume the role of trusted sales associate with business models and digital storefronts that reinvent the luxury shopping experience and the economics that support it.

The Saks Global deal and Amazon's minority stake seems aimed at boosting the fortunes of two luxury retail franchises that have seen better days. The more interesting story will be whether Amazon needs Saks Global to conquer luxury retail. Or whether, after getting a look under the hood, they find the model so broken they decide to go it alone — taking with them the 21% of the Amazon's 185 million Prime Members who are women with annual incomes over $100,000, just waiting to shop 'til they drop.

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September 3, 2024

NINE THINGS PAYMENTS EXECS NEED TO KNOW FOR THEIR 2025 BUSINESS PLANS

Summer should get a speeding ticket, a wise person once said, and that's a reality that all of us living in the Northern Hemisphere came to grips with last weekend. The Labor Day weekend marked the unofficial end of summer, and the start of the four-month sprint to the end of the year.

Along with the rituals of putting away the summer wardrobe and sending kids back to school comes the strategic reflection: what's now, what's next and what becomes part of the 2025 business plan.

And the onramp to the second half of the decade.

Those plans have rich context to consider.

New data from PYMNTS Intelligence finds that consumers in the U.S. engage in an average of 14 different digital activities each month: paying bills online, conducting telehealth visits, streaming music and videos, and shopping and paying for groceries and retail products using digital payments and apps.

The U.S. may not be as digitally-forward as Brazil, according to our 11-nation study about How the World Does Digital, but its consumers are embracing a digital-first economy. Digital-native generations like Gen Z and Zillennials will fast-track that reality for the businesses they shop with and work at — bringing their parents, grandparents and corporate colleagues along for the ride.

Success won't be measured by the products a business makes or sells, but how well they create and monetize ecosystems that connect activities across traditional industry sectors.

New cutting-edge technologies are a part of those plans, especially GenAI, and innovations in digital payments change where and how consumers and businesses find each other and do business; making those transactions faster and more efficient. Our connected, soon smart voice-enabled, digital economy is

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moving commerce to any internet-enabled endpoint, anywhere in the world. That will force business models to change and foster an adapt-or-die subtext in strategic plans.

As digital becomes the DNA of business, success won't be measured by the products a business makes or sells, but how well they create and monetize ecosystems that connect activities across traditional industry sectors.

As I have written many times, payments is the cornerstone for this digital transformation.

Networks will become the catalyst for growth, profits and scale because they have the power to connect stakeholders and simplify and monetize value exchange. Networks give innovators a way to enrich their value. Those themes run through the PYMNTS Intelligence findings we've reached based on tens of thousands of surveys and millions of data points.

This is not an altogether new story, but the combination of cutting-edge technologies and payments makes it a different one.

We see evidence of new networks being formed or contemplated as businesses take stock of their customer assets. Payments introduce new ways to create and monetize engagement.

Technology paves that path.

Business models become the source of competitive differentiation, scale and platform ignition in a timeframe that works for customers, investors and the network operators. It's the challenge that has vexed platform businesses for millennia. It remains the siren song that beckons business executives and innovators to try anyway.

Looking back at the summer of 2024, and the strategic plans that will soon grace the pages of a thousand PowerPoint decks, here are nine trends that businesses should consider as cornerstones for planning for success in an economy undergoing intense disruption from new technologies.

01

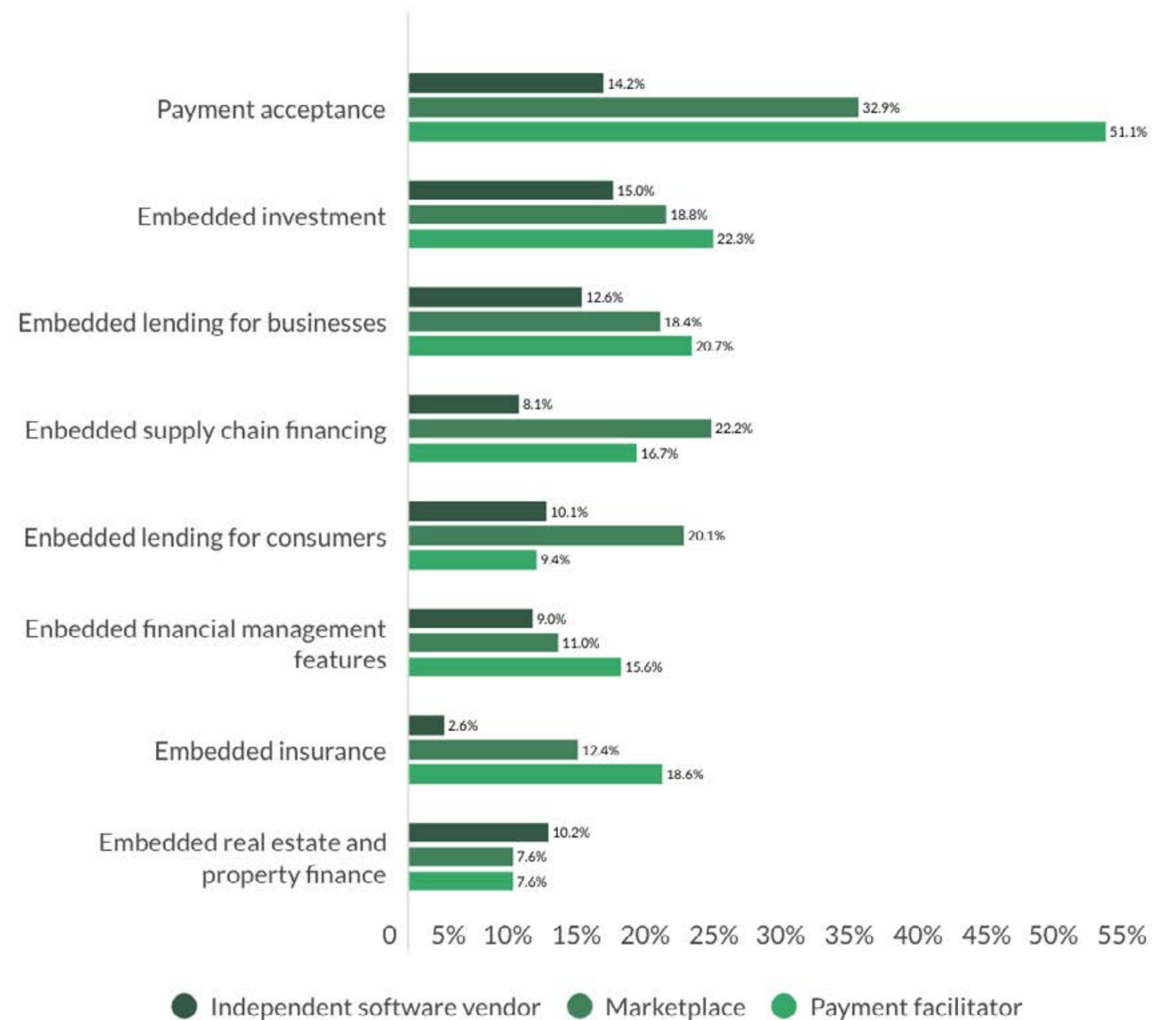
EMBEDDED EVERYTHING

Embedded is the prefix for most of the innovations we talk about now in payments. We embed payments into software (something we've been doing ever since the dawn of eCommerce), identity into payments, lending into checkout flows, banking into virtual accounts, point solutions inside of tech stacks, GenAI into software, offers into banking apps, and networks into networks.

According to PYMNTS Intelligence, nearly all software platforms, PayFacs and marketplaces have plans to either embed or enable embedded solutions inside of their ecosystems either this year or next.

Figure 1

Types of embedded finance products most likely to explore in 2024/25



A lot of what was called invisible at the dawn of the 2010s with the introduction of Uber is now described as embedded. I guess we've evolved. Embedded is a given, tablestakes, the key to conversion. But it's not enough to just "embed" something into something else. Embedding should be almost invisible and frictionless.

Looking ahead, embedding is the beginning, not the end — making the application of embedded about the how and the what instead of just the why.

02

POWER SHIFTS TO ISSUERS

Payments processing is a commodity — a low-margin race to the bottom. Regulators in the U.S. and worldwide want to see it commoditized further, threatening the economics of the traditional four-party model. At the same time, banks and corporates watch every day as payments are a one-way ticket out of their customer's bank accounts and into someone else's — billions, and even trillions of dollars a year.

> Non-banks will become issuers of virtual accounts with feature-rich functions that **go well beyond a one-time-use virtual card that is just another transaction.**

Those dynamics should force a shift in the conversation about payments towards a strategic source of value, an opportunity to create and monetize new account relationships, turning a one-way ticket out of one bank account into an opportunity to create a new account relationship with added value. Non-banks will become issuers of virtual accounts with feature-rich functions that go well beyond a one-time-use virtual card that is just a way to complete a transaction.

New payments economics beyond interchange — and new ways to incent the right behaviors and stickiness — will matter as much as the technology that makes all this possible. That will shift the power to the issuer, who holds the deposits and can monetize them inside of these closed-loop ecosystems. And the business models that bring it to life.

03

THE MONETIZATION OF INSTANT

We live in an on-demand economy: What we want, we want right now. And when it comes to money, right now means in an instant.

Yet there is an assumption that, when it comes to money, "right now" also means free — even though consumers pay for "right now" in almost every other part of the on-demand world.

It costs money to order food from Uber Eats or aspirin from Door Dash to get it delivered in 30 minutes. Amazon's same day or overnight delivery isn't free — there is an annual subscription fee and often a minimum basket size. Consumers can binge watch movies or TV shows on Netflix, on demand, provided they are a subscriber.

For consumers and small businesses, instant payments become much needed cash flow. We have plenty of evidence that both will pay for speed because it is cheaper and more predictable (and safer) than filling cash flow gaps any other way.

Maybe they won't pay for instant all the time, but they will when it is most necessary or when it gives the receiver peace of mind that the money is there just in case; PYMNTS Intelligence finds that to be the case for medium-size small businesses as well as parents who are constantly juggling the expenses of raising a family, to take two examples.

Instant is offered to consumers and small businesses much less often than they'd like, according to our research. Nearly 80% of consumers and SMBs would pick instant if they could, it's offered less often than receivers say they'd like. Finding ways for payors to monetize instant could change that.

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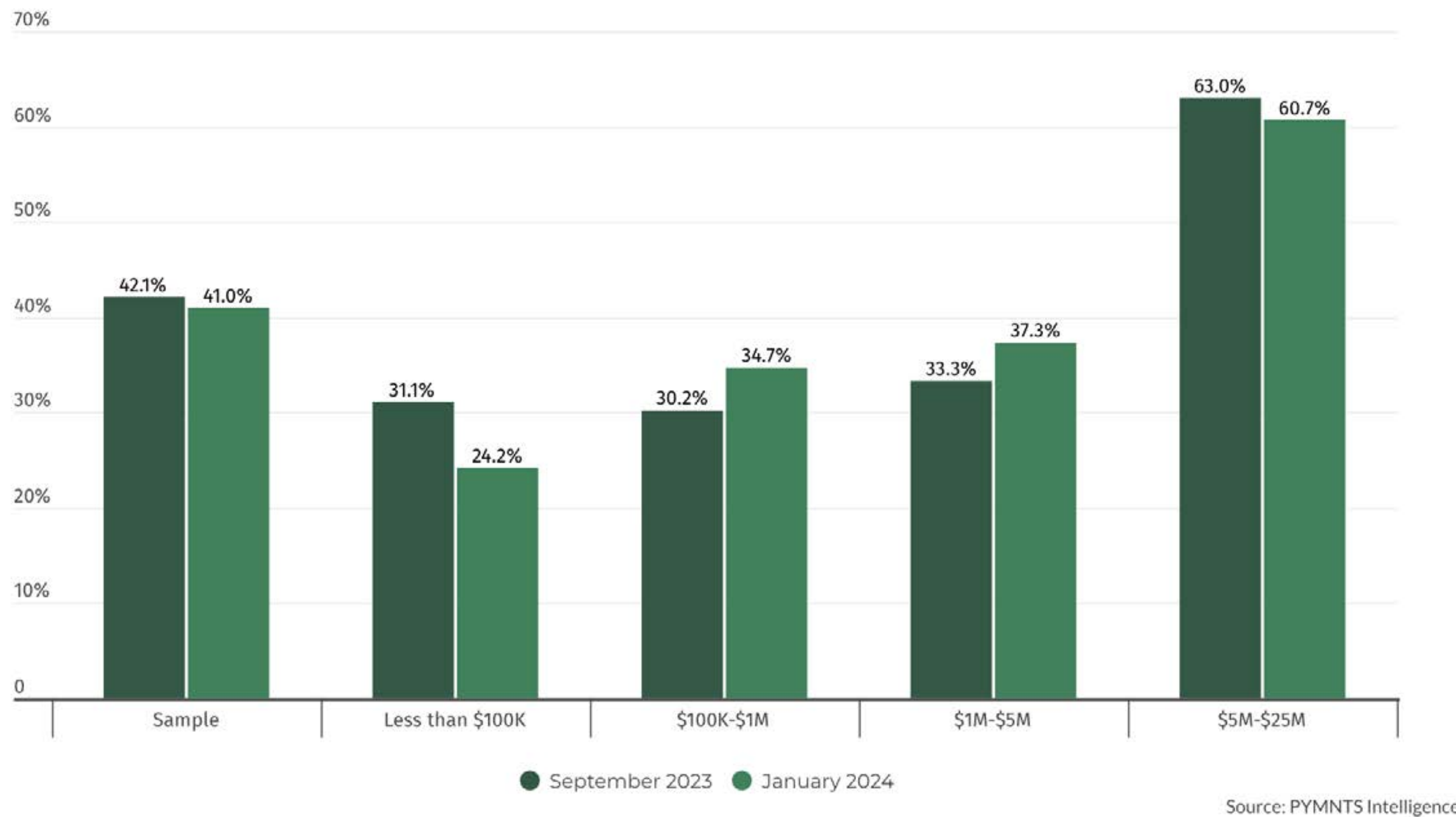

Figure 2
Share of SMB receivers willing to pay a fee to receive instant payments

04

FROM CARDS TO CREDENTIALS

Ten years ago next month, Apple Pay was launched. It was hailed as a digital payments innovation, a new form factor that would make plastic cards irrelevant.

It hasn't.

Far more important than turning a phone into a form factor was the tokenization of card credentials, the mobile wallet superpower that transcends using the mobile "Pays" to complete a transaction at the physical point of sale.

> Tokenization creates a more inclusive **environment for distributed commerce.**

Tokenization breaks the consumer, issuer and merchant dependence on wallet acceptance and wallet fees, creating a more inclusive environment for distributed commerce — cross-channel, cross-platform, cross-operating system.

We see innovators using tokens to reinvent user journey and flows, making it one-click, and sometimes no-click. And embedding shopper identity and preferences into those credentials to make them smart, personalized and relevant.

The shift from cards to credentials isn't just a consumer play. It is also a powerful B2B innovation that creates frictionless commerce opportunities between trading partners. It is already changing the utility of wallets and how they are used, making them less about payments and more about the digital hub for doing business in a digital world, giving corporates new ways to engage their stakeholders across complex financial supply chains.

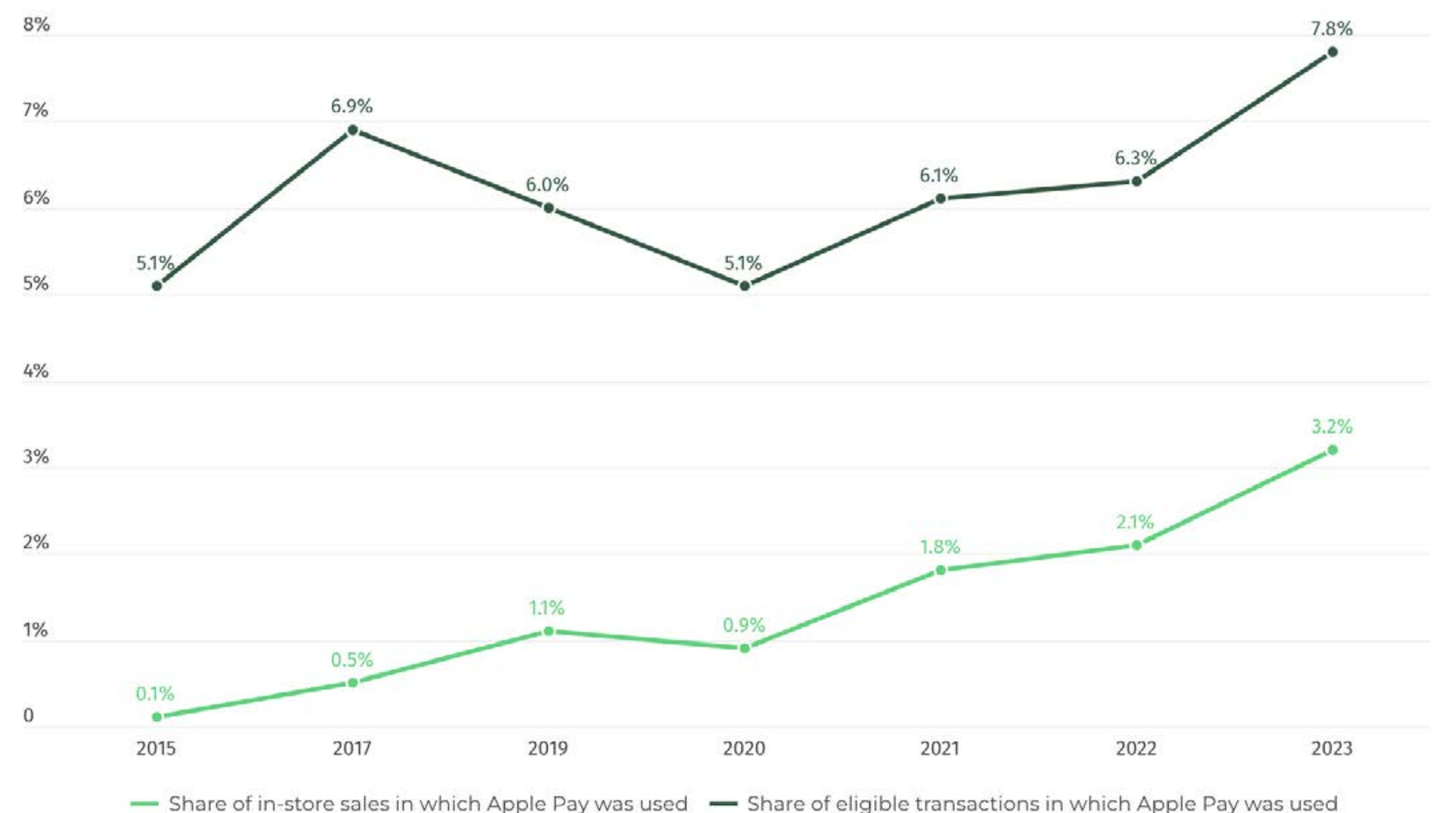

Figure 3
Wallets strugle to get traction as users still pay with cards

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05

FRAUD FORCES FOCUS ON FINDING SOURCE OF TRUTH

Good data delivers new insights that help businesses see around the corner. Here is one of them. The fear of "getting it wrong" slows company growth for businesses of all sizes, when getting it wrong means deciding not to enter new markets or segments for fear of fraud.

Businesses have every reason to be wary.

AI-powered fraudsters create sophisticated schemes to trick consumers and businesses into funneling money their way. The risk of getting it wrong is now very high, and unless something is done, it could get worse as AI rapidly improves.

The battle lines are being drawn over the source of truth: what is it and who has it? Businesses want answers.

What is the source of truth for consumer and business identity? The UnitedHealthcare hack, combined with the hack of background check database National Public Data, gives fraudsters nearly everything necessary to create an identical, digital twin of sorts on the web.

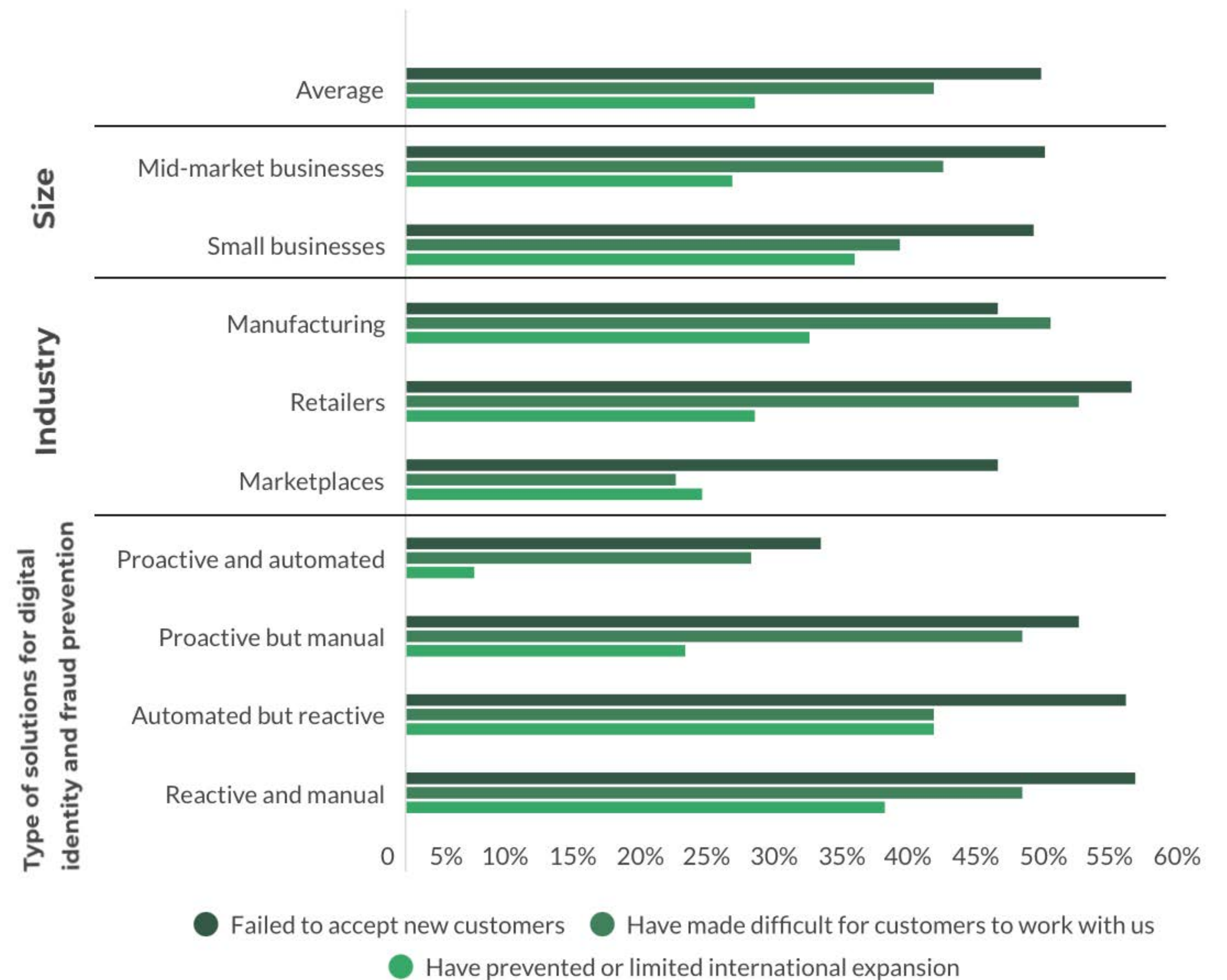
For customer data, what is the source of truth about preferences and use cases? The water is muddied by ad blockers and far too many paper-based records and data silos in businesses.

For lenders, what is the source of truth for assessing the risk of a consumer or a business? Credit scores for consumers are a rear-view mirror look, and for businesses there is a lack of standardization for business credit reporting.

Networks and consortia are emerging to create certainty about people, businesses and transactions in a world where onboarding speed is critical and face-to-face is either impractical or illusive. For the nearly half of businesses that turn away new business, solving that problem will help them drive top-line performance.

Figure 4

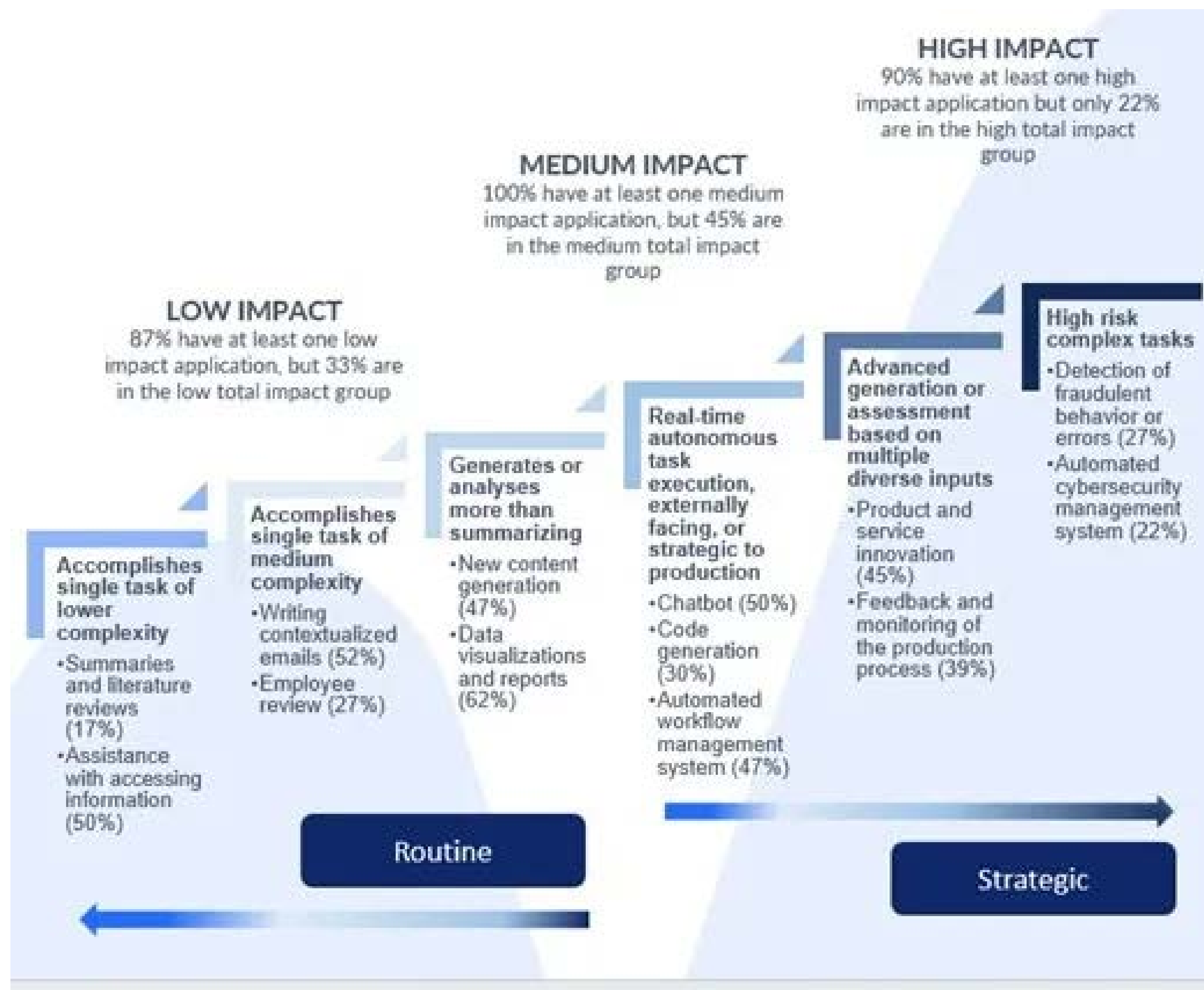
Impact of fraud-related concerns on business expansion since 2020



06

GENAI MOVES UP AND TO THE RIGHT, EVEN WITHOUT KNOWING THE ROI

PYMNTS Intelligence has studied roughly 450 C-Suite executives since January to get a read on GenAI sentiment across the enterprise, its application, and the ROI of those efforts. Cfos, especially, say that genai is the most significant technology innovation of their lifetime. That's pretty good news, since they ultimately sign the checks for those investments across the business.



More interesting is how the enterprise uses GenAI. Here we find that large corporates apply it to more strategic areas of the business – moving from GPT-ing emails and reports to fraud (where AI has been a force for many years), product innovations and process improvements.

These execs are committed even though we've seen a shift over those eight months in the importance of ROI when making those investments. We've observed a simultaneous increase in investment and application of GenAI to the business in support of more strategic initiatives, and the decrease in expectations for a more immediate payback.

The C-Suite recognizes that GenAI and AI more broadly will change their business and the competitive landscape. Not being able to measure outcomes right now, or estimate ROI reliably, isn't stopping them from using it, and investing in it, and rethinking how their own business will do business in the years ahead.

Based on the conversations I've had with C-Suite execs, they believe that the return on not-investing — waiting to get all the answers first — could be highly negative, maybe fatal, to their business.

07

UNCERTAINTY IS THE INVISIBLE TAX ON BUSINESS

Uber's biggest innovation in 2009 wasn't making payments invisible, it was monetizing certainty. Not knowing how long it might take to find an empty taxi during rush hour, or any hour, or wondering whether one would show up at 5 AM for a ride to the airport was its central value proposition — eliminating the uncertainty that defined the taxi industry for decades. Certainty (and invisible payments) is the foundation for the $154 billion business that is Uber today.

More generally, not knowing costs businesses money, opportunity and confident decision making. Data in real time creates certainty, but getting data ready is complex; data silos are hard to crack. Decision

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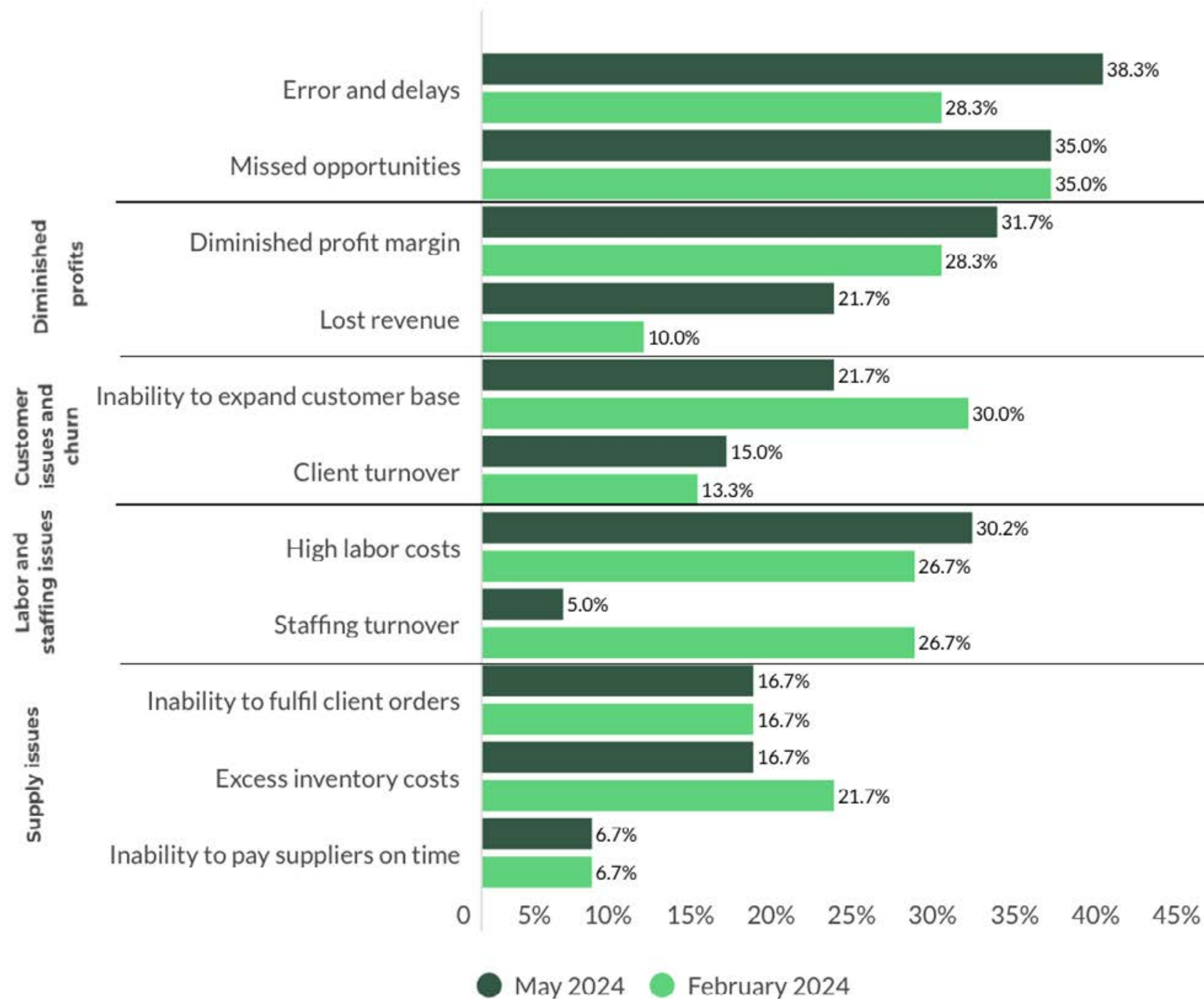
Figure 5

Share of middle market CFOs citing impacts of uncertainty or unpredictability in the last 12 months



makers devolve into "analysis/ paralysis" – as they pore over incomplete data and make risky assumptions to fill in the gaps.

The PYMNTS Intelligence team has been running The Certainty Project study since January to size the cost of uncertainty for middle market companies.

It's not nothing.

> **CFOs will invest in workflows and tools to reduce uncertainty,** giving them visibility in data and payments flows.

We estimate that uncertainty costs about 4% of annual sales and 8% of sales for the middle market firms on the smaller end of the sales spectrum. Waiting, not knowing, cost middle market firms opportunities, clients and staff.

Not surprisingly, uncertainty's ripple effect can be felt up and down the financial supply chain. Companies with higher degrees of uncertainty pay slowly — creating cash flow issues for receivers that then create cash flow for their suppliers.

CFOs will invest in workflows and tools to reduce uncertainty, giving them visibility in the data and payments flows that offer a clear line of sight into their business and market dynamics, and the tools to help them fill the gaps.

For most businesses, the greatest source of uncertainty is not knowing when they'll be paid, when the money will hit their bank account. Knowing, with certainty, when money will arrive is almost, with the emphasis on almost, as good as getting it. At least those CFOs know when and can plan.

08

LEGACY HAS A RENAISSANCE

Legacy is a funny word. When the world lost Berkshire Hathaway's Charlie Munger at the age of 99 earlier this year, the media spoke of the rich legacy that he left behind. His writings, his investment theses and his authentic called-it-like-he-saw-it approach are all part of Munger's indelible imprint on business strategy and investing.

His legacy.

> FinTechs are embracing their inner legacy **to help legacy tech innovate outside of their core**.

When we talk about legacy in payments and financial services, it isn't usually that flattering. The conversation is about tech debt and slow movers, systems that are out of step with the times. The expiration date for legacy is also getting shorter. Tech that is 60 years is prehistoric. Tech that is 20 years old might as

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well take its final victory lap right now before riding off into the sunset.

What's missing in the conversation about legacy is the part that isn't about the tech. It's the part about the rules of the game. The regulatory and compliance part. It's the unit economics of the business part. It's the complexity of building a financial network part, and coloring within the lines that regulators have drawn and keep redrawing part.

We were forced to take another look at legacy as the payments and financial services industry melted down over the antics of several bad actors playing in the Banking-as-a-Service sector.

You all know the story.

Durbin-exempt banks could be part of the cool FinTech ecosystem, get those deposits and change their business. FinTechs could work with those banks, offer banking services to consumers and businesses, share in the interchange fees, without being one. Everyone could live happily ever after.

A few really didn't. And the happily-ever-after story is looking less happy for a large swath of BaaS innovators forced to change their models and hope for the best. Even more fallout is expected. Consolidation is inevitable.

Regulators aren't shy now about aggressively examining and sanctioning FinTechs and FinTech models. Banks and payments ecosystem reassess FinTech partnerships. Sponsor banks turn down more deals and take longer to look at the ones that they'll green light in the end.

Legacy is starting to look like the wise elders — but now with better tech and rock-solid compliance. And more heavily-regulated FinTechs aspire to look like the best parts of legacy — with better tech and buttoned-up compliance. There is a new happily-ever-after-story in the making, as FinTechs are embracing their inner legacy to help those wise elders innovate outside of their core.

09

SIMPLICITY IS THE NEW BUSINESS KPI

Inertia remains a seemingly incurable disease in many pockets of business today.

Take checks. In 2023, there were 3.1 billion commercial checks written and cleared in the U.S., according to the Federal Reserve, worth about $8.4 trillion. The average check amount was $2,662. That's about 7% fewer than the 3.3 billion checks written in 2023 and the $8.9 trillion in value they represented.

Here's the stunner.

Businesses in the U.S. are writing half as many checks as they did in 2012, but the average value of the checks has more than doubled. The average value of a check then was $1,273; in 2023 it was $2,652. That's been the trendline ever since: smaller numbers of checks, higher value of the checks being sent.

What?

Well, mobile deposit and mobile check cashing makes depositing a check easier for consumers and businesses. They may not want to get them, but it's money all the same. Corporates need a better reason to kill the check, and a less complicated way to do that without killing their payments workflow in the process.

Complexity powers the status quo.

When something is too hard or takes too long or has an uncertain payoff, it's easy for a business executive to say no, not now. Easier for a customer to find an alternative that's easier to do business with.

Simplicity is the appeal of embedded everything — making four steps into one drives conversion, satisfaction, trust and preference. It's the value proposition of everything from payments orchestration to PayFacs, neobanks to new payments flows.

Intermediaries will use new technology and business models to make complexity invisible to the user and to the bank or business that wants to make it possible for

their customers. Digital economy winners will make commerce a one-touch experience that abstracts the complexity of identity, eligibility and payments for key stakeholders. Millennials and Gen Z will force that change.

KPIs are the linga franca of the board room and strategy decks. They measure every aspect of business performance. Except one.

How easy is it for people and businesses to do business with me?

Answering that comes back to an understanding of the frictions that get in the way of "doing business," which becomes an opportunity to make it easier. And an assessment of the capabilities that exist or could make yours an attractive option to consider.

Cool tech and embedded everything are one part of the answer. Keeping it simple is ultimately the one that will get you the business.

A FINAL THOUGHT

C-Suites and Boards that account for these nine trends in their 2025 plans can ride through the turbulence caused by disruptive innovation and the emergence of new critical technologies in the second half of decade. They stand a chance of coming out on top. Those who don't may not have much to celebrate in 2030.

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October 1, 2024

MISSING PIECES: WHAT THE PUNDITS GET WRONG ABOUT THE DOJ DEBIT INTERCHANGE LAWSUIT AGAINST VISA

After listening to and scrolling through days of "expert" commentary about the lawsuit filed by the DOJ against Visa over debit interchange, I feel compelled to weigh in.

Big headlines about big companies — especially concerning DOJ allegations of anticompetitive behaviors and lawsuits to signal they really mean it — bring everyone and anyone out of the woodwork. Social media gives everyone and anyone a platform to say anything they want.

Facts seem to be an inconvenient detail.

But between a comment made on one of the morning news shows about Visa (as in, Visa directly) passing $7B in debit interchange onto consumers — which went unchallenged by the show's hosts — and the unsolicited pitches and public commentary by FinTechs who've built their businesses on top of Visa's rails and are now piling on, it's time to get a few basic facts on the table.

Facts, specifically, about the claims in the complaint concerning the lack of payments innovation in the U.S. based on Visa's "moat" and the inability for FinTechs to be successful in developing and scaling alternatives to Visa's debit network because of that "moat."

It's a head scratcher, as anyone who knows this business knows.

> The claims in the complaint against Visa ignore the well-documented **explosion of payments innovation in the U.S. over the last decade and a half.**

Both claims ignore the well-documented explosion of payments innovation in the U.S. over the last decade and a half, including the success of FinTechs who have ridden that wave and those rails to massive valuations and spectacular exits.

It's as if the world has been suddenly taken over by a bunch of Rip Van Winkles who've been asleep for the last fifteen years — and think we're still mainly paying with dollars and coins. Overlooking the fact that the Durbin Amendment, passed in July of 2010, fixed debit interchange fees and

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required debit card issuers to offer a choice of two unaffiliated processing networks for merchants to route debit transactions.

I'm sure some readers are already about ready to pounce on how payments in Europe are sooo much more innovative. Except they aren't. Cash is king, especially in some of the big economies such as Germany and Italy.

A recent ECB report put it this way: "But to be clear: cash remains the most frequently used means of payment. More than half of all day-to-day transactions in shops, restaurants, etc. are made using coins and banknotes."

TIME TO WAKE UP AND SMELL HOW PAYMENTS NETWORKS WORK

There are several claims made in the DOJ lawsuit. I hope you take the time to read it thoroughly — and not the ChatGPT version of it. Much of what is written relates to details about negotiations and contracts about which I have no knowledge, so can't and won't address.

I will address the broader context around which those claims are made. Starting with how networks ignite.

Please don't roll your eyes.

At least four people on a well-known morning show didn't have a clue. I imagine they are not the only ones. So don't skip this part. Unless you know it by heart, you're starting from a fact base that is probably rickety at best.

Because there's always a middleman. And they never work for free.

IT TAKES FOUR (PARTIES) TO TANGO

The four-party model has existed for more than fifty years in payments. It's the model that makes it possible for banks to issue a single card that can be used to pay for something at any merchant that runs over network rails. Acquirers onboard and vet merchants and connect them to terminals and gateways that allow those merchants to accept those cards and be paid for sales made using them.

> The four-party network model also made it easier for merchants and issuers **to monetize those payments at scale.**

The innovation, first introduced in the mid-1960s by the predecessors of Mastercard and Visa, was to operate the clearing and settlement rails that kept track of all credit card transactions (and later debit) flowing between all those issuers and merchants each day.

The resulting payments innovation jumpstarted a massive wave of commerce because consumers could use a single card to shop at many merchants. That unlocked a lot of pent-up purchase demand. Merchants benefited because they no longer had to issue and manage their own cards to give consumers an option to use credit to pay for their purchases.

The four-party network model also made it easier for merchants and issuers to monetize those payments at scale. Merchants could plug into an acceptance network that expanded the reach of their own customer base to any consumer carrying a card from an issuer with the Visa logo on the front of it. Merchants and issuers could do that without having to build and operate their own clearing and settlement systems to manage those flows. Mastercard followed Visa eight years later and launched in November 1966.

These acceptance networks remain incredibly valuable to consumers — and to innovators who want to connect their product to merchants with the broadest reach.

But no one does anything for free.

Let's focus on credit cards, which was the whole game until the mid-1990s.

GETTING TO IGNITION

Getting any network off the ground — and then scaling it safely, securely and profitability — is one of the hardest things to do in the business world. Even people inside of successful platforms, and who weren't there at the start of them,

don't appreciate the complexity. It just works, and it looks so easy.

The classic platform dilemma always is deciding which side of the platform pays (or subsidizes) the other side of the platform deemed essential for "ignition." Ignition is a word that we use to mean getting enough momentum to assemble the critical mass that triggers the network effects and scale. It's never a straightforward answer, and there are always trade-offs.

Getting any network off the ground — and then scaling it safely, securely and profitability — **is one of the hardest things to do in the business world.**

Interchange is the business model that greases the flywheel of the four-party system. Visa (and Mastercard) don't have direct consumer relationships. They're B2B brands that provide connectivity across issuers, acquirers and merchants to keep commerce running smoothly. They don't, and wouldn't know how, to send an interchange fee payment to anyone.

So, when people claim it is "Visa" that passes the cost of interchange fees to the consumer, they are dead wrong on two counts.

One: Visa isn't touching the interchange fee, which goes right to the issuer.

And two: The interchange fee isn't a cost to the consumer. The issuers get the fees and generally pass them along to consumers in the form of rewards and other benefits.

Why does this matter?

Because anyone with the ambition of creating a new payments network needs to figure this part out. Someone has to pay to get the other side to engage and to operate the network.

The middleman you may love to hate today could end up being replaced by a middleman you may learn to hate even more.

And who may end up delivering less.

THE DEBIT INTERCHANGE ROPE-A-DOPE

Now, for the issue at hand, which is debit.

Visa was the first network to introduce the debit card. The year was 1975, and it was called the Check Card. It was intended to solve the massive friction merchants experienced from accepting checks as payment at the point of sale, including fraud and the time it took for checks to clear and settle and funds to hit their account.

It was a big flop.

Consumers didn't understand why cards were better than checks. They didn't trust them and didn't understand how they worked. Twenty years later, in 1995, debit transactions represented only 2% of retail noncash transactions according to the Kansas City Fed. By 2000, it had jumped to 11% and was finally on the verge of taking off.

Debit was Visa's 25-year overnight success.

Getting consumers to change how they pay is hard, even if the alternative is better, **faster and easier and comes from a brand that consumers already know and trust.**

It took that long because there was so much investment and blocking and tackling required to ignite the network. And funny TV commercials. Even though they were starting from a position of strength with merchant connectivity, and issuers with consumers and checking accounts who could be converted to "check cards."

But that was then and this is now, you might say.

Yep. It's also a lesson in how hard it is to start and scale a new network. Getting consumers to change how they pay is hard, even if the alternative is better, faster and easier and comes from a brand that consumers already know and trust.

In 2010, as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, debit interchange

fees became regulated for all but the smallest financial institutions. Merchants insisted that high debit interchange rates forced them to raise prices to the consumer. That a lower interchange rate would allow them to offer consumers relief.

Today, the DOJ seems to think that if debit card fees came down, merchants would just lower prices to consumers. Anyone who has ventured into the physical world of paying merchants should have their doubts. Past is also prologue.

It is well documented that after the debit card interchange fees were slashed, merchants didn't pass much of the savings back to consumers. And that banks which had used debit card interchange fees to keep depository accounts costs low eliminated free checking accounts and raised fees. Not a win for consumers. But that's old news.

Here's the irony of the DOJ complaint.

As part of the Durbin Amendment to Dodd-Frank, merchants were given the option to route debit transactions across any PIN debit network. There are ten of them, including Visa's Interlink and Mastercard's Maestro.

The DOJ complaint alleges that alternative debit networks, including Mastercard's Maestro, are unable to compete successfully given Visa's debit share.

That seems odd, since it is solely in the hands of the merchants to decide how they want debit transactions to be processed.

The lack of volume over alternatives could have something to do with the lack of confidence merchants have in transactions running over those networks. Maybe they aren't confident that those transactions won't be falsely declined or have the same level of fraud protection. Many domestic debit networks are unable to process network tokens, an innovation that has increased conversion and reduced fraud for merchants.

> It's possible that merchants recognize that when it comes to debit processing, **you may sort of get what you pay for.**

When consumers are presented with the option at the point of sale to pick Visa versus an unaffiliated debit network, they are (a) mostly wondering why they need to pick one and (b) most likely choose Visa since it seems safer. Maybe even less sketchy.

Visa innovated the notion of tokenized credentials when creating the virtual card provisioning requirements for Apple Pay a decade ago. Tokenized credentials were an important digital payments breakthrough that ignited mobile wallets and online commerce by making checkout and recurring payments more secure and seamless. That innovation was provided free to merchants who used Visa's rails to process transactions.

It's possible that merchants recognize that when it comes to debit processing, you may sort of get what you pay for. That they take a risk in alienating a customer over a false decline or opening themselves up to fraud, so they stick with what works, even though they could switch. Even when the cost of doing so is cheaper.

Alternative debit processing networks need to innovate — and invest — to make their rails more attractive to merchants. If they really want to compete, they shouldn't wait for some other entity to make it happen and then complain once they do.

NOW PLAYING IN PAYMENTS: THE WOE IS ME SOUNDTRACK

In 1973, Stephen Sondheim wrote the soundtrack for the musical A Little Night Music. The hit song from that musical was "Send in the Clowns." That song begins with the lyrics, "Isn't it rich," intended as an ironic commentary on the life and fortune of the main character, which was anything but.

"Isn't it rich" was my reaction after reading the several references to PayPal, Square and Apple as aggrieved parties in the DOJ complaint. Those references allege that, in different ways, each has been prevented from creating their own alternative networks and blame Visa for getting in their way.

Take PayPal.

The DOJ complaint references their 2016 deal with Visa to more easily

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enable PayPal users to register a Visa card in the wallet.

Let's step back.

In 2015, PayPal's market cap was about $38 billion. Although consumers could register a credit card to their PayPal wallet, PayPal strongly encouraged consumers to connect and pay using their bank account credentials. They were interested in monetizing the spread between collecting fees charged to the merchant and the cost of processing an ACH payment. Once a consumer reached a $10,000 spending limit using their PayPal account, it was bank account or bust.

In 2016, Visa and PayPal agreed that it would be easier and more visible for PayPal users to attach their Visa card to the wallet in exchange for access to Visa's tokenization capabilities. That turned out to be pretty important, even though PayPal's margins would be lower. An agreement with Mastercard soon followed. Consumer usage of the PayPal account took off.

In 2015, the average PayPal user had 27 transactions per year, about two a month. Two years into the new contract, that number had increased to 36, or three a month.

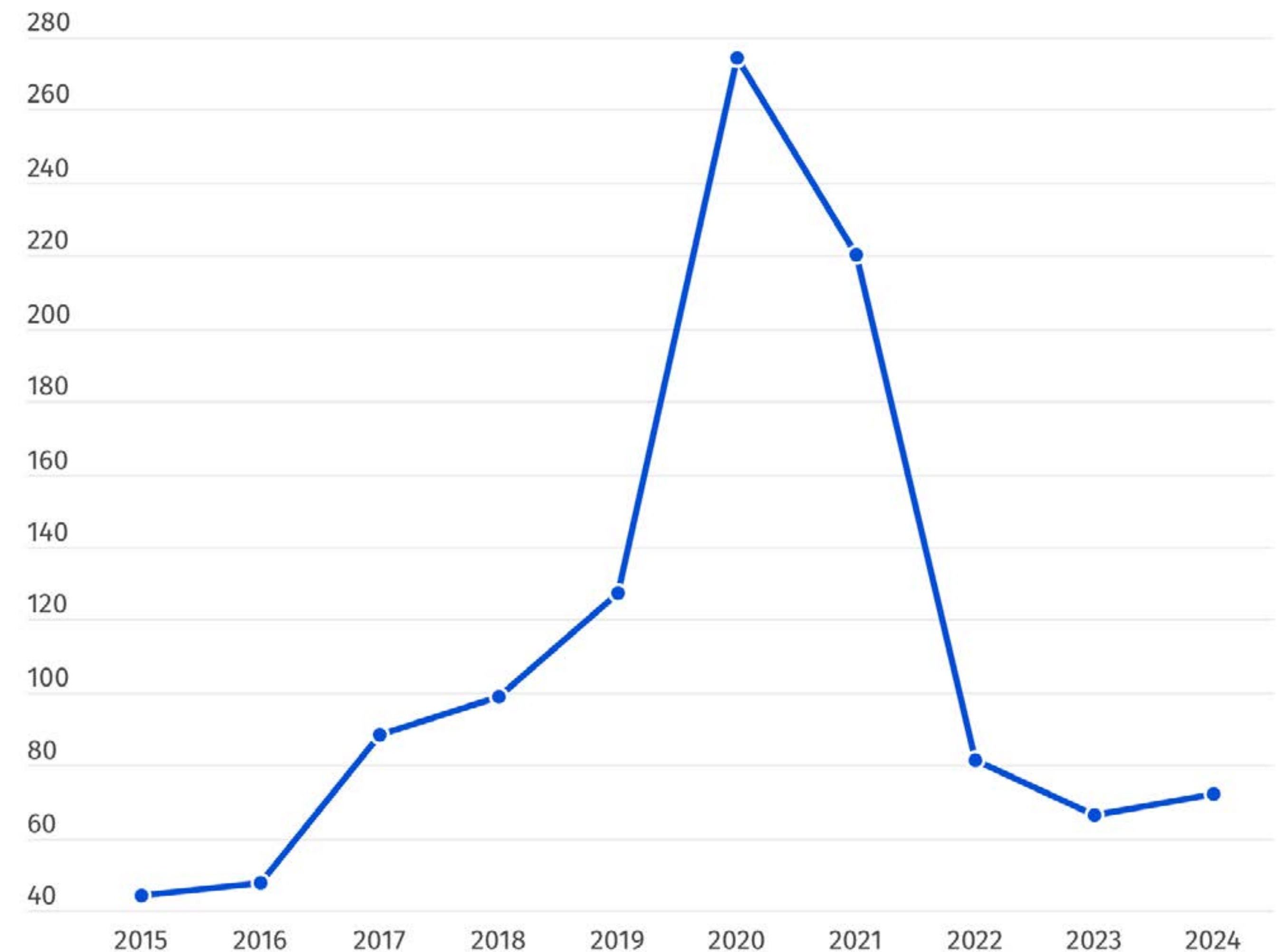
In 2018 — just two years after that announcement — PayPal's market cap had nearly tripled to $102 billion, making it more valuable than Amex at the time. (They were $92 billion).

Then there's the Square allegations.

Square is a $41 billion market cap company that wouldn't exist without consumers carrying Visa (or Mastercard) products in their wallets. As is well known, Square was able to build its network on the back of the card networks because they could spend zero money getting the consumer side on board. Their innovation was the business model and white plastic dongle that turned a mobile phone into a point-of-sale terminal for merchants who wanted to be paid using the cards consumers already had and liked to use.

Square's Cash App, an alternative banking product that also runs on the Visa rails, has 57 million active users and generates nearly $15 billion in annual revenue, according to their most recent filings. That means that Square has 57 million users it could convert, if it wanted, to its own account-to-account closed loop network leveraging the merchants

PayPal Market Cap History, 2015-2024



Year	Market cap	Change
2015	$44.30 B	
2016	$47.62 B	7.49%
2017	$88.48 B	85.79%
2018	$98.72 B	12%
2019	$126.88 B	28.53%
2020	$274.41 B	116.27%
2021	$220.26 B	-19.73%
2022	$81.19 B	-63.14%
2023	$66.20 B	-18.46%
2024	$71.93 B	8.64%

Source: Companies Market Cap

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on the Square platform. There's nothing stopping them from creating a new business model — and the incentives needed for consumers to engage and for merchants to accept it. They should do that if they think it is the best thing for their customers, merchants and Square.

Then there's Apple and Apple Pay.

PYMNTS Intelligence will release data in two weeks as part of our annual update on Apple Pay usage and adoption, so I won't spoil the surprise.

Let me just say that a decade later, at the physical point of sale, debit and credit cards still rule. But like any other FinTech, Apple could innovate to establish merchant connectivity and merchant acceptance for Apple Pay users in other ways. They certainly have the money to do it.

Apple also doesn't strike me as the sort of firm that can be forced into signing agreements that they don't like, one of the allegations made in the DOJ complaint. Keep in mind this is the same Apple Pay that told the banks to take or leave the transaction fee they levy each time a card provisioned in their wallet is used.

FUN FACTS ABOUT FINTECHS AND INNOVATION

The broader allegations that Visa's debit share keeps FinTechs from innovating in a way that adds value to the consumer ignores the massive wave of payments innovation that has emerged from FinTechs that ride their rails.

Durbin may have been regulated at the largest banks in the country, but roughly 98% of them are exempt. FinTechs have beaten a path to their doors. They've used them to issue debit products that belie the business models that support their business.

Neobanks like Chime, Venmo and SoFi exist because they create mobile accounts that ride those rails. The $30 billion Buy Now, Pay Later sector consists of FinTechs that have seen steady growth because they ride debit rails to process payments from borrowers' bank accounts. These players also issue "anywhere" cards that can be used to create a Pay Later loan made with purchases anywhere Visa and Mastercard are accepted. Secured credit cards have found a new lease on life, and

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new use cases for those products, thanks to the card rails that support acceptance anywhere for those credit-building products.

Retailers and businesses can now leverage issuer processors to turn payments into virtual accounts that — you guessed it — ride debit card rails and give consumers a choice in where to use and spend them. And those businesses a new way to create and monetize a new customer relationship.

All of that has supported a massive wave of FinTech investments.

FinTechs have used the card networks to build their businesses and eliminate the cost and complexity of **creating merchant acceptance from a standing start of no or few users.**

According to a 2024 report by the World Economic Forum and McKinsey, startup funding in the FinTech sector grew from $19.4 billion in 2015 to $33.3 billion in 2020. Deal sizes more than doubled.

Publicly-listed FinTechs have an aggregate valuation of $550 billion, and the number of FinTech unicorns increased 7X between 2019 and 2023. There are now 272 firms worth more than $1 billion globally.

Setting aside the 2022 correction, the report projects that FinTechs will grow 15% year over year over the next five years, more than double the growth of banks in the traditional sector.

FinTechs have used the card networks to build their businesses and eliminate the cost and complexity of creating merchant acceptance from a standing start of no or few users. They also have a choice for which card network they partner with to do that. It is competitive. Who they choose is based on their own business case and company economics — and the innovation investments and value-added services inside of the network that help them do more than just clear and settle transactions and connect to merchants.

Visa has invested tens of billions into upgrading their network to prevent fraud and cyberattacks, and to keep the network operating at

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peak resiliency so merchants can provide a safe, reliable payments experience for their customers. Visa has invested in a slew of value-added services that create better outcomes for merchants and consumers using AI to better manage fraud and risk and provide more payments optionality. Its operating rules are intended to preserve the trust that consumers have when transacting with merchants, including how to manage disputes and chargebacks when there are problems and to protect the consumer if their card credentials are compromised.

All that said, it's also a very dynamic payments ecosystem.

Those dynamics create headwinds and tailwinds for everyone. New rails are emerging with promises of different economics. New technologies make transactions a lot smarter and more personalized. New players simplify the complexity of connectivity.

The promise of new ecosystems with consumer and merchant critical mass is real and developing. Regulations will force bank account connectivity and pave the path for non-card rails to flourish. Many will take their shot at becoming closed-loop networks operating outside of the card network rails. Some will succeed.

In the U.S. today, everyone from Big Tech, Big Banks, Big Retail, Big Business and Big FinTech all have visions of new network sugarplums dancing in their heads.

WHEN ALL ELSE FAILS, SEND IN THE LAWYERS

There are a lot of players who would like to unseat Visa here in the US and around the world, not to mention the other card networks. They believe that they would be a better middleman. Not only better, but a cheaper middleman, a more secure middleman, a more empathetic middleman. An account-to-account middleman offering the same bells and whistles, one more advantageous to their interests.

This is not a new story, and over the years there have been many failed attempts for one simple reason: consumers aren't interested in buying what they're selling. And the business models for getting consumers on board have been weak or non-existent.

As I said, someone has to pay, and nothing is ever free.

Remember MCX? The piece I wrote in 2013, The MCX Fairy Tale, foretold the inevitable collapse of that merchant-retailer-consumer network before it got started. Anything starting with the proposition of reducing merchant fees forgets that it is the consumer who will decide. And consumers don't care what it costs a merchant to offer them a choice in how they pay.

PayPal, in many respects, is a live case study of the risks of taking something beloved away from a consumer, paying the price, then having to revert to giving consumers back their choices. This DOJ claim against Visa seems like a smokescreen to hide PayPal's shortcomings in innovating the consumer experience over the years. Of course, these shortcomings have absolutely nothing to do with Visa.

Paze, the bank wallet advertised on TV as the "Dad" wallet, might want to look at that example — and every other example that banks have put forward to ignite a bank-centric network, including P2P. As I wrote recently, it will collapse under its own weight, but not before spending hundreds of millions of the bank's money in getting there.

There will be a middleman, and they will charge someone(s) for access. **It's just how platforms and networks work.**

Walmart is taking yet another shot at creating a pay by bank option, leveraging Fiserv. We'll see if the third time is the charm. I was as surprised as anyone that the Walmart Pay app crashed and burned. They could control almost everything that mattered: ubiquity at all Walmart stores, and incentives for consumers to download and use it. In the end, they didn't. According to recent PYMNTS Intelligence data, the Walmart Pay share of Walmart sales stands at 0.7% nearly ten years post launch.

Even the world's largest physical retailer with a captive audience couldn't crack the code which requires getting consumers— the supposed victims in the DOJ-merchant story — to go along.

This is the biggest piece that's missing in the DOJ complaint. It's the part about the complexity of getting a network flywheel moving and keeping it at scale. The need to create incentives for consumers to move to something new. Not to create something that is the same, but something that adds incredible value for them. There will be a middleman, and they will charge someone(s) for access. It's just how platforms and networks work.

The real problem for challengers to Visa in the U.S., and other card networks, is that payments work so well for consumers. In the end, it's innovation — and consumers — that will decide how people pay and with whom.

But I guess when all else fails, why not send in the lawyers?

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October 22, 2024

APPLE PAY'S 10-YEAR JOURNEY AND ITS NEXT DECADE OF DECISIONS

PYMNTS Intelligence published its annual report on the usage and adoption of Apple Pay yesterday (October 21). That report marked the ten-year milestone of Apple Pay's launch, which was the mobile wallet shot heard round the world.

Apple Pay wasn't the world's first digital wallet — and it wasn't even the first mobile wallet developed by Big Tech (remember Google Wallet in 2011?) — but it was the first wallet connected to an indispensable piece of hardware, from a brand that users loved and considered their lifeline to the digital economy.

The promise at launch was to use the iPhone and Apple Pay combo to replace cards entirely at the physical point of sale — at least, that's what Tim Cook promised. It seemed like a lofty ambition in 2014 since not many iPhone users had the right phones to activate Apple Pay then, many merchants lacked contactless terminals to accept it, and few issuers were willing to provision cards for it (and pay Apple a fee to do it).

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According to PYMNTS Intelligence, in the U.S., Apple Pay usage and adoption have grown over the last 10 years since most of those initial barriers are in the rearview. Apple makes it nearly impossible to activate an iPhone without installing Apple Pay, more issuers enable cards to be provisioned to the wallet, just about all merchants have contactless terminals now, and tap-to-phone payments expand acceptance beyond fixed terminals in stores.

Globally, there are reportedly now 744 million active Apple Pay users, more than double in 2017.

APPLE PAY AT 10

According to the PYMNTS Intelligence report, in the U.S., the result has been strong Apple Pay growth as a percentage of retail sales volume. Between 2014 and 2021, Apple Pay growth sort of flatlined. Between 2022 and 2024, Apple Pay grew rapidly. Its growth over those two years was 41%.

At the ten-year mark, Apple Pay has a 5.6% share of retail sales. Increased merchant acceptance drove 58% of that lift. In other words, Apple Pay users could — and did — use it to pay for their purchases at more stores. Most of those purchases came from gas and C-stores, grocery stores and restaurants.

Where Apple Pay hasn't fared as well is getting more iPhone users on Team Apple Pay. More than 90% of iPhone users who could tap their phone instead of a card when shopping in a store still don't. Less than 20% of Apple Pay's growth over the last decade has come from new users. We also see that instore use and adoption has started to plateau.

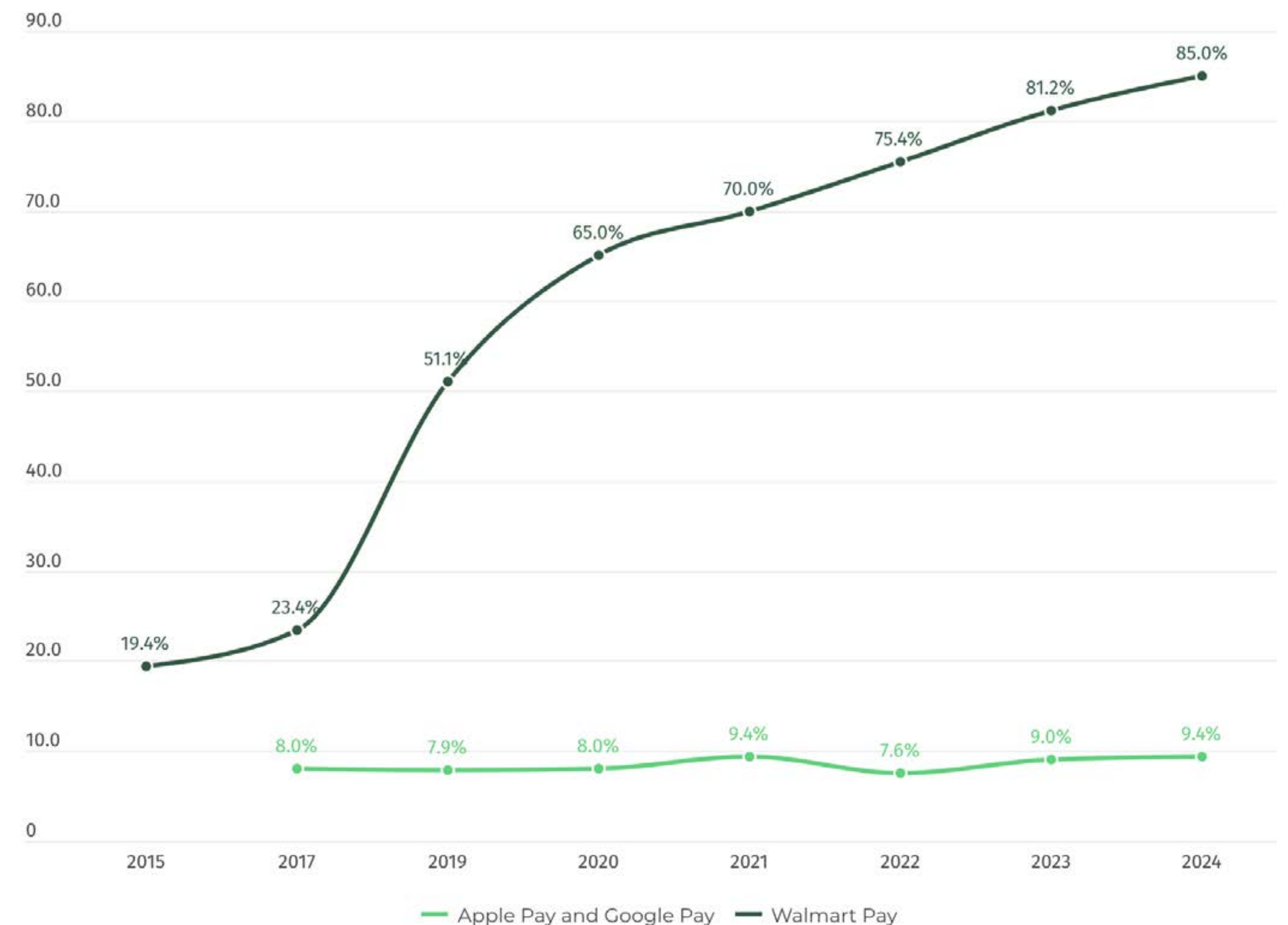
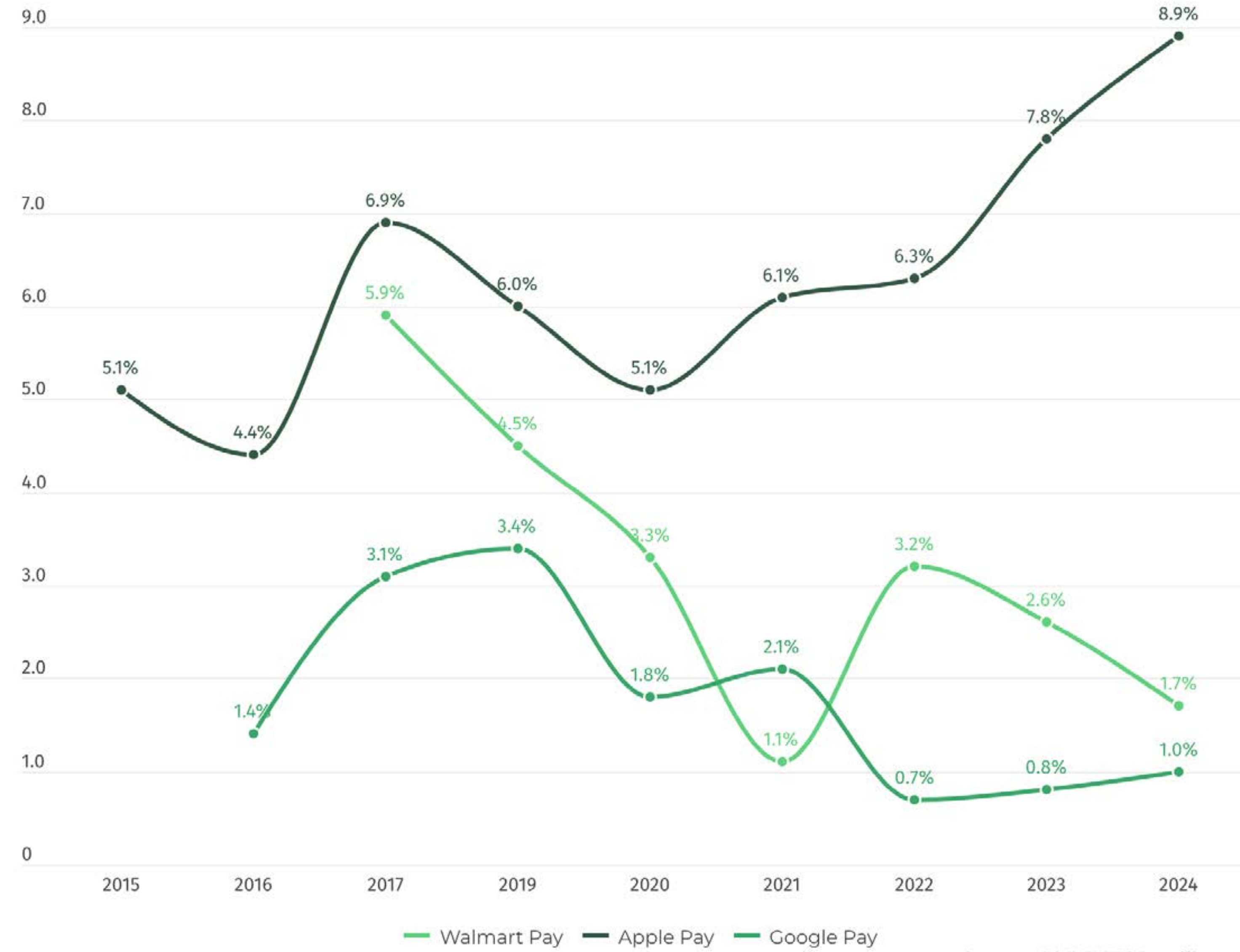


Figure 2

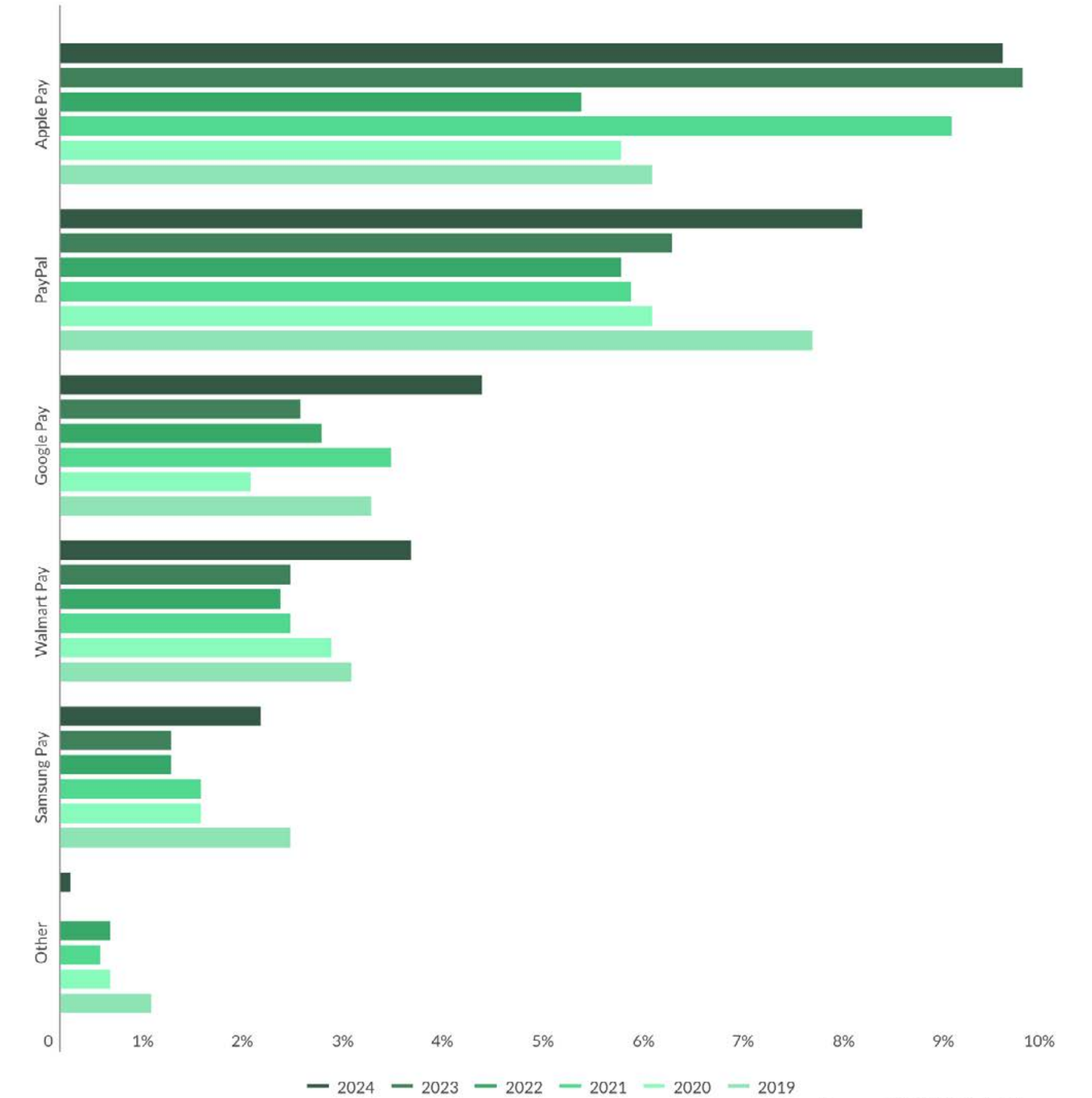
Share of eligible transactions where select digital wallets were used



Source: PYMNTS Intelligence
Apple Pay @10: How Competitive Challenges Could Slow Retail Sales Growth, October 2024

Figure 3

Share of consumers citing which mobile wallets they used in the last 7 days for in-store purchases



Source: PYMNTS Intelligence
Apple Pay @10: How Competitive Challenges Could Slow Retail Sales Growth, October 2024
N = 2,150: Consumers who made in-store purchases in the last seven days, fielded Aug. 20, 2024 – Aug. 28, 2024,

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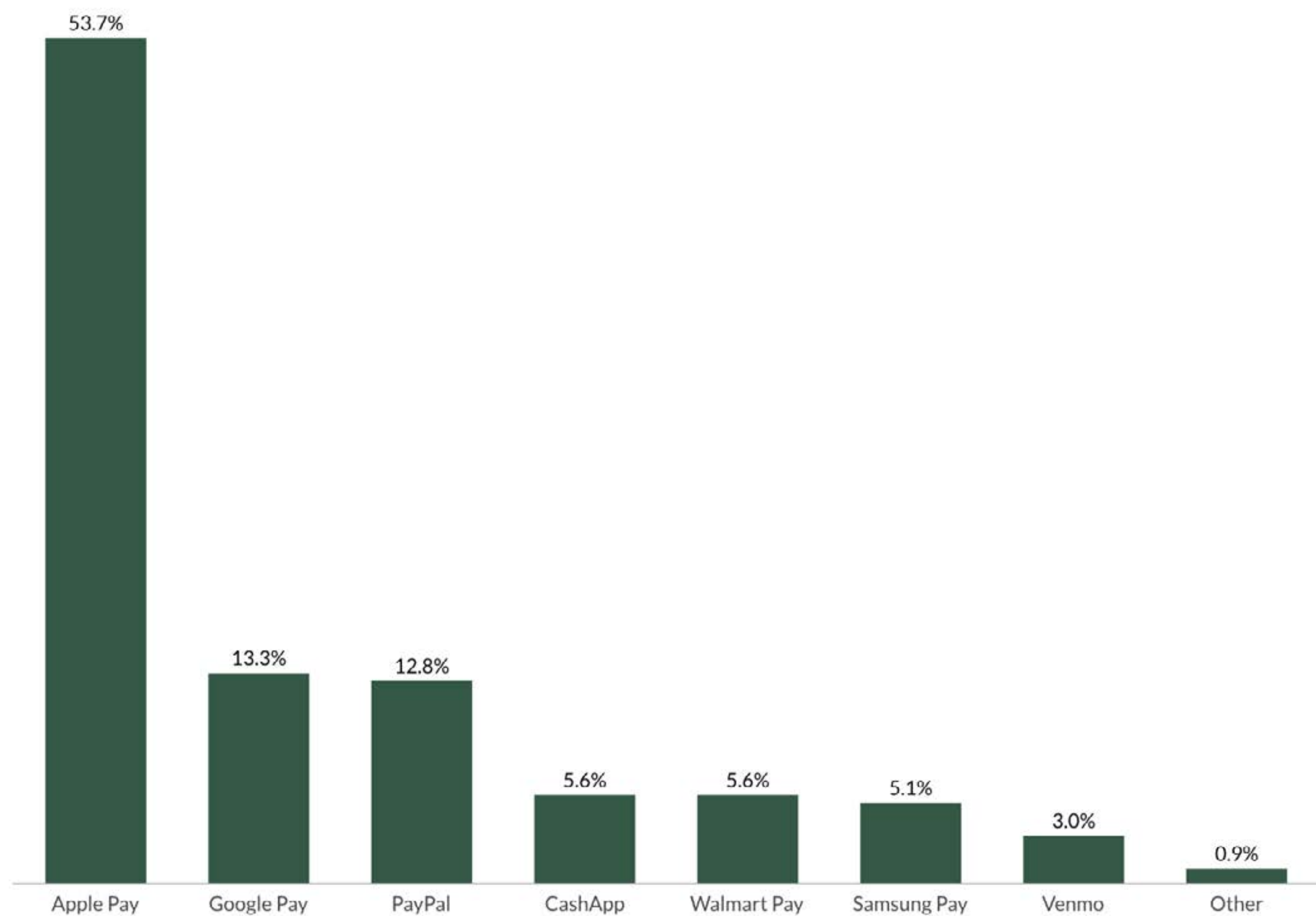
GROWING MORE USERS

Apple Pay's challenge, as with any new way to pay, is to expand beyond the early adopters to the mainstream consumers — who still think cards work just fine. Apple Pay has a massive 54% share of the in-store mobile wallet usage (the other 46% is captured by PayPal, Google, Cash App, Walmart, Samsung, and Venmo), but it's still a pretty small pond. Physical cards remain its most formidable competitor. At least for right now.

Figure 4
Usage of mobile wallets in last in-store transaction



Source: PYMNTS Intelligence
Apple Pay @10: How Competitive Challenges Could Slow Retail Sales Growth, October 2024
N = 109: Consumers who made in-store purchases using mobile wallets, fielded Aug. 20, 2024 – Aug. 28, 2024,

Monetizing Apple Pay matters a lot to Apple. It's a cornerstone element of the high-margin Services revenue bucket that is a hedge to what has become a less predictable iPhone revenue and profits backstop.

Today, 46% of Apple's revenue comes from the iPhone, with the U.S. as its biggest market. Europe at 26% represents a distant second; China at 17% a distant third. Across the business, Apple averages a net margin of about 46.26% as of Q3 2024, down slightly. The drag on profits has come from the hardware side of the business which has seen margins slip to 35%.

Services, though, is where the magic happens. At 28.2% of revenue, as of Q3 2024, Services account for nearly three quarters (74%) of Apple's profits.

Services revenue has seen strong growth over the years, most recently reporting a 14% rise year over year. Specifically, Services is the bundle of revenue from the App Store developer fees, AppleCare, Apple Pay, Apple One/Apple's subscription business like Music and TV, its ad business and the search exclusivity payment from Google. Apple Services has more than a billion subscribers to its services. Its retail ad platform generated $7.5 billion in revenue so far, almost as much as all of Foot Locker's revenue in 2023.

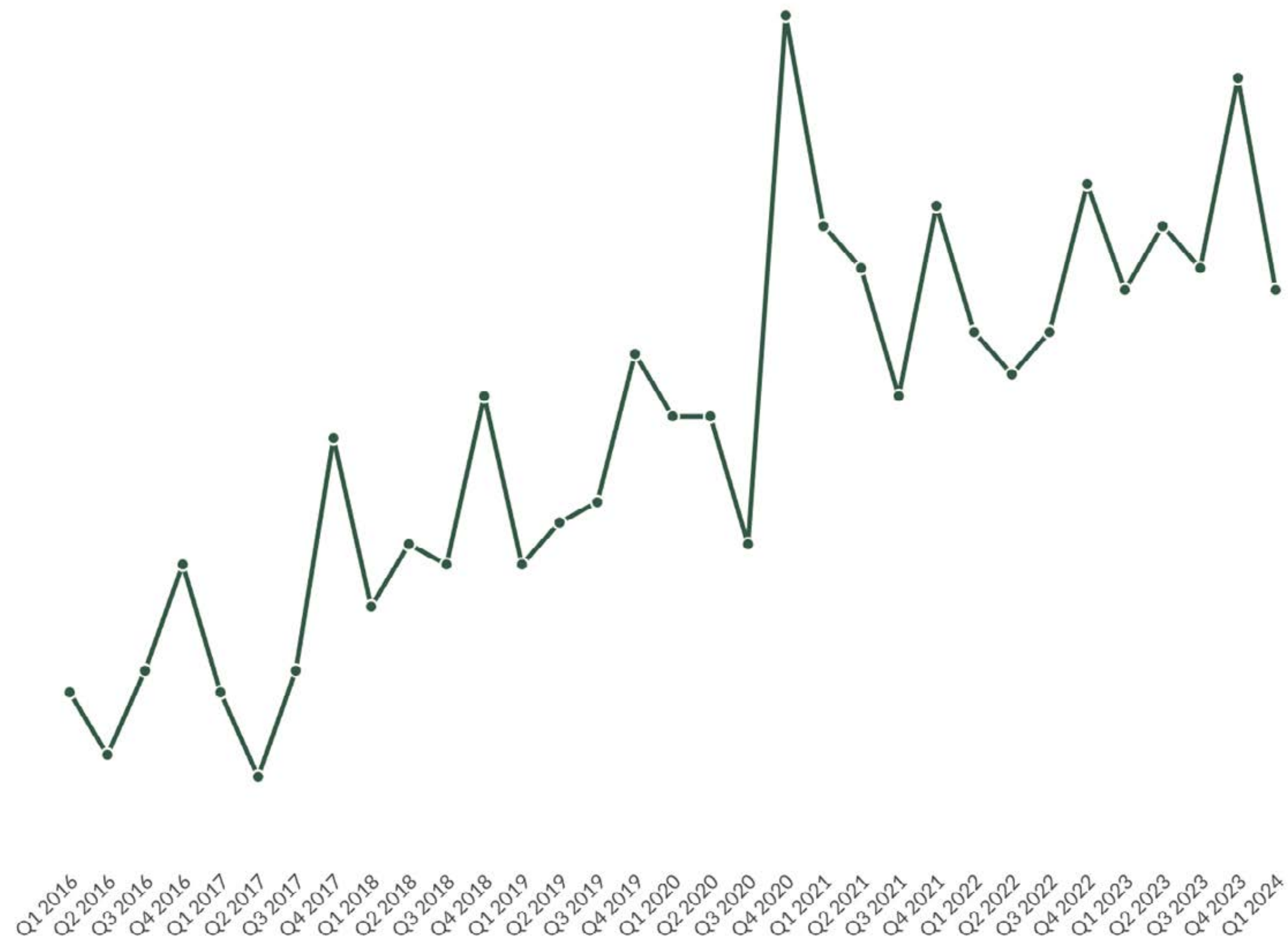
A SLIPPERY GRIP ON HANDSETS

Yet, Apple can't assume that its grip on the handset market in the U.S. and globally is secure, despite an early strong showing in China for iPhone 16 sales. Apple's share of smartphones in the U.S. has remained relatively flat since 2020 — which is part of the reason Apple stopped reporting the number of devices sold.

Without handset sales, there isn't Apple Services revenue. And without its current App Store business model, its profit engine is at risk.

Opening its NFC chip to rivals will create competition at the point of sale for iPhone users who will have the option to use a different wallet to pay for purchases in the store. That has the potential to divert wallet

Figure 5
iPhone US Market Share



Source: https://backlinko.com/iphone-users

volume, and the revenues from it, away from Apple Pay.

At the same time, Apple Pay's reach is only as deep as its share of handsets in the market, consumers that use it and merchants that accept it. In the U.S., that's roughly half of the smartphone installed base; globally it's far less. And as we've seen, getting more existing iPhone users to use Apple Pay in the U.S. is the big nut to crack. Along with convincing the world's biggest physical retailer, Walmart, to join Team Apple Pay, which is where 9.4% of retail spend in the U.S. happens.

For Cupertino, the soul-searching for their infamous "one more thing" must address the four fundamental threats to Apple's iPhone-centric business model. That's where the combination of regulator pressure and GenAI have the potential to become the biggest disruption to the smartphone ecosystem since Apple's launch of the iPhone in 2007. And its App Store a year later.

01

THREAT NUMBER ONE: GENAI AS DEVICE AND OPERATING SYSTEM DISRUPTOR

Next month will mark two years since OpenAI made ChatGPT accessible to the world. Each month when PYMNTS Intelligence asks a panel of C-suite enterprise executives to identify leaders in GenAI and LLMs, Apple doesn't make the short list. This despite Apple's early embrace of voice-assisted AI with the introduction of Siri in 2011 and after reportedly spending $20 billion in AI development costs over the last five years. Insiders say that Apple is at least two years behind in its development and commercialization of GenAI.

We'll finally see Apple Intelligence on October 28, more than a year and a half since the launch of powerful LLMs by Google, Amazon, Meta and Microsoft, and about a month after the launch of the iPhone 16 handset. Apple is said to have spent $1 billion developing Apple Intelligence. With it, Apple hopes to persuade fan boys and girls to upgrade to its latest model.

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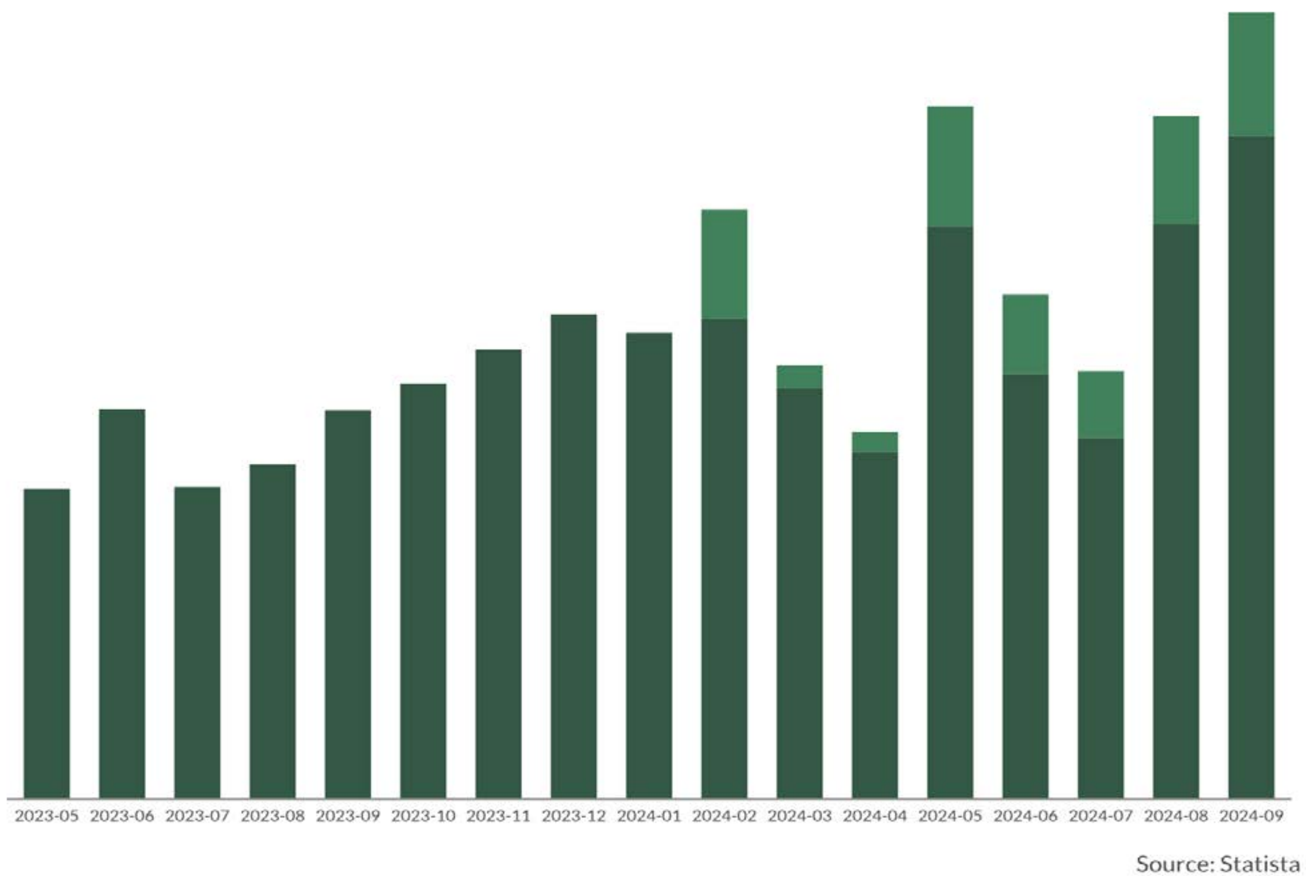
Figure 6

Number of monthly ChatGPT and Gemini AI mobile app downloads in the United States from May 2023 to September 2024



Apple's last-to-market entry with GenAI faces high expectations for what it must deliver. More than 200 million people have already downloaded and are using GenAI apps on their mobile devices. According to Statista, more than 4 million people in the U.S. downloaded ChatGPT in September 2024 alone. Those users are already getting, using and integrating GenAI into their everyday experiences, including voice-activated features and prompts to write better-sounding emails.

That means that Apple's version of GenAI will have to be a real knock-your-socks-off experience beyond the much hyped Genmoji feature to get users to shell out $1,100 for a new phone or even to show the world that Apple is a player in GenAI. Despite the investments so far, some still say that Siri isn't any smarter than she is now and lags GPT in accuracy. [Cue the Genmoji sad face.]

Then there is the potential of the yet unknown Gen-AI powered device that lots of entrepreneurs are surely thinking about.

Jony Ive and OpenAI's Sam Altman have raised $1 billion to fund the development of a device and operating system that they say will be as disruptive to the personal computing space as the iPhone was in 2007. Ive ought to know — he was among the iPhone's early masterminds.

Although there's no time yet slated for its release, it looms as a longer-term potential threat to Apple, along with all the under-the-radar ventures that are almost certainly trying to disrupt the smartphone model.

Those risks are especially concerning given that iPhone upgrade cycles, always an Apple tailwind, average about three years. And Apple's success beyond its core hardware products (iPhone, MacBook, Air Pods, and the Apple Watch) has been fleeting. The Home Pod was a dud, and Vision Pro is a cool headset in search of an audience beyond fanboys. Apple's self-driving car, Project Titan, was driven to the junk yard in February after a decade of work and $10 billion of investment.

That sort of makes the iPhone Apple's biggest, and most enduring, one-hit wonder.

It's also been 17 years since we've seen a new form factor and operating system appear in the everyday smartphone/smart device category. Based on interviews with Altman and Ive, it seems their device won't be a phone but something different, connected and GenAI powered. It's entirely possible that Apple's early adopter fanboys (and girls) could be persuaded to find a new favorite.

In the more immediate term, GenAI phones by Google, Samsung, Xiaomi and Huawei are hitting the smartphone market. IDC forecasts that the sales of GenAI powered smartphones will increase 364% year over year in 2024, and 73% in 2025. These are all Android devices, presumably powered by Google AI. Google is light years ahead of Apple in AI and its application to use cases with a demonstrable impact on business and society. The Nobel Foundation thinks so too, awarding two 2024 Nobel prizes to now or recent Google employees for their AI achievements.

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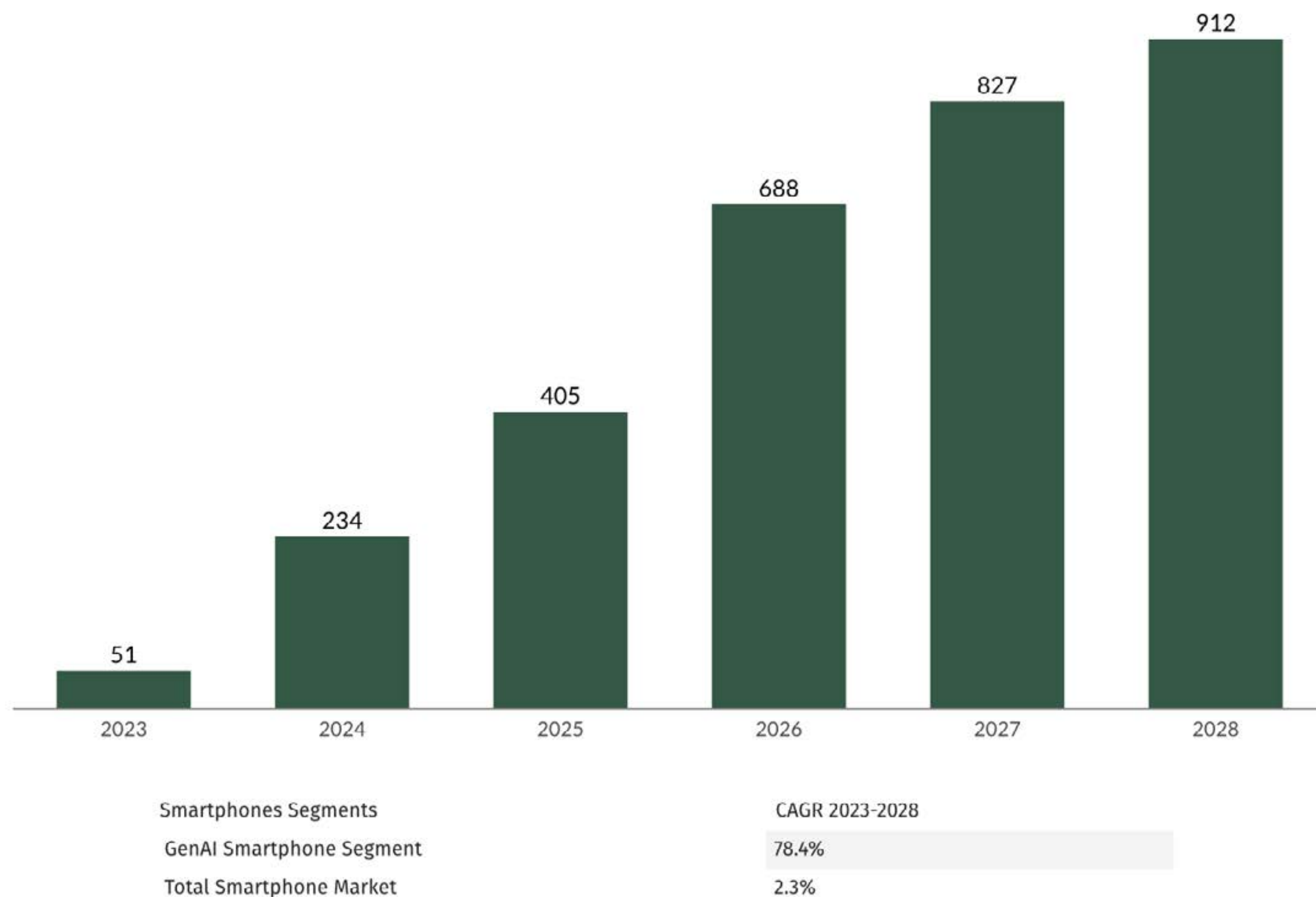
Figure 7
2023-2028 Gen AI Smartphone Shipments (Units) Forecast



Smartphones Segments	CAGR 2023-2028
GenAI Smartphone Segment	78.4%
Total Smartphone Market	2.3%

Bottom line: Consumers with curiosity right now have different hardware options to connect them to ecosystems that are accessed using GenAI tools and operating systems. And for the moment, they aren't iPhones.

02

THREAT NUMBER TWO: APP STORE BUSINESS MODEL PRESSURE

The Epic Apple antitrust case was the starting gun for the unraveling of Apple's hold on its App Store business model, the primary driver of Apple's Services revenue and its profits.

Apple was forced by EU regulators this year to open its App ecosystem to rival processors. It was also found in violation of the Digital Markets Act in June 2024 over fees that are "beyond what is absolutely necessary," and fined $1.8 billion. Apple now allows developers free rein to process payments outside of the App Store, but not because they decided it was the nice thing to do.

According to Reuters, in August, Apple also reduced its developer commissions, putting in place a structure that includes an initial 5% acquisition fee for new users and a 10% store services fee for any sales made by app users on any platform within a year of the app installation.

In the U.S., Apple made the magnanimous concession to reduce developer commissions from 30% to 27% in year one while also allowing developers to process payments outside of the App Store. Now there is a dynamic in play where the judge in the Apple/Epic case could force Apple to lower its fees and be more open. And a larger, more serious antitrust case is just getting started, where the DOJ — following its huge win against Google Search — is targeting Apple and its App Store business model.

It's not possible for developers to sidestep Apple App Store fees now, but that could change quickly and likely will globally.

03

THREAT NUMBER THREE: SEARCHING TO KEEP THE GOOGLE SEARCH EXCLUSIVITY WINDFALL

Then there's not often cited, but massive, threat to margin and revenue from the potential loss of the exclusive Google search revenue deal.

As part of the Google antitrust proceedings, court documents disclosed that Google's payment of $20 billion in 2022 to Apple to power search on Safari accounted for 36% of Safari's revenue. More importantly, it accounted for 17.5% of Apple's operating income, based on 2022 results. And largely pure profit to Apple.

Depending on the final ruling on remedies by the court in the DOJ lawsuit, that payment could be gone forever, or severely reduced. That's a lot of revenue, and margin, to replace when the case is finally settled.

04

THREAT NUMBER FOUR: CRACKING OPEN THE CHIP

Opening Apple's NFC chip to rivals is now possible with the release of iOS 18.1. Now any wallet that is an app on the iPhone can be used to pay at the physical point of sale.

That creates new competition for Apple Pay at the in-store point of sale. There are early signs that PayPal, with its cross-platform digital wallet as an app on the iPhone, may be getting some in-store traction. Anyone with an iPhone and a PayPal app can now pay at the point of sale and online — just about anywhere they shop now — using it. PayPal counts 278 million users in the U.S. who have PayPal wallets now that they can use on and offline to shop and pay.

According to PYMNTS Intelligence, we already see the share of consumers with any phone using PayPal to pay at the physical point of sale increase by 31% year over year. Once a distant second, the gap between Apple Pay and PayPal in-store is only 18%. We'll see if that gap shrinks further over the next 12 months.

In addition to creating wallet competition in-store, access to the iPhone NFC SE creates an advantage for apps and wallets that are cross-platform and cross-channel. This is particularly important for the growing number of Click-and-Mortar™ shoppers who want the same experience shopping in-store as they do online. That includes shopping history and order history, regardless of whether a purchase was made in a store, in an app or on a web site. That's a barrier for Apple Pay right now, and these shoppers now account for more in-store shopping and mobile wallet use.

PYMNTS Intelligence found that between 2020 and 2023, the share of U.S. consumers shopping in-store grew by 28%, largely due to a rise in the share of Click-and-Mortar™ shoppers. From 2022 to 2024, the share of consumers who use mobile wallets for in-store transactions rose 33%, indicating mobile wallet use in-store is going up with Click-and-Mortar™ shopping. Providers with apps that cross platforms pose an even greater threat to Apple Pay, particularly from the digital-first Click-and-Mortar Shopper whose ranks are the parents, high income and younger consumers who spend a lot today and will continue to spend in the future.

And growing competition for Apple and Apple Pay, whose payment options are limited outside of the Apple ecosystem.

FILLING THE CRACKS

As Apple looks ahead to 2025 and the rest of the decade, the big drivers of Apple's revenue and profit engine face intense pressure. That has implications for what Apple may want — or need — Apple Pay to deliver.

In China, its presence is likely short-lived given intense competition from good smartphone makers that have optimized for the WeChat ecosystem and political pressures favoring domestic manufacturers. At the same time, the population of younger consumers there is shrinking, and the economy is in free fall. Both reduce

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the pool of potential Chinese iPhone customers.

In Apple's second-largest market, the EU, where the regulators have Apple and Apple Pay squarely in their sights, the current crackdown seems more like a warm-up act than the grand finale. In the U.S., political, regulatory and legislative pressure will continue to force change voluntarily or via mandates. Apple's business model will continue to be the subject of intense and ongoing scrutiny, along with every other Big Tech business model.

At the same time, Apple's competition is using new technology to reimagine the relationship that consumers have with devices and the digital economy. GenAI is both a massive source of innovation and disruption. For Apple, at least so far, it has been the latter and not the former.

When it comes to payments, one of the remarkable innovations that emerged from Apple Pay is the tokenization of credentials, which streamlines the payments and commerce experience for online and in-app transactions. But Apple with Apple Pay doesn't have a lock on that tech.

As tokenization evolves beyond secure and stored account credentials to digital identity and shopper preferences, form factors and the commerce experience will evolve, too. Tokenized credentials become digital commerce passports and form-factor agnostic. Like the iPhone in 2007, we won't really know it until we see it. And just like what happened to the ubiquitous Blackberry that no one ever said they could live without, if the experience is amazing enough, it won't take long for fanboys to become fans of the next big thing. And for new business models to emerge that encourage adoption and usage.

THE NEXT 10 YEARS

For Apple, over the next five to 10 years, the test will be whether it can really walk the talk as a Services-first business that just happens to produce handsets that people like and use. It seems an unlikely pivot for a business that is all about closed ecosystems and getting more and more people to live within them. And to monetize that engagement while there.

What is likely is that Apple will look to where the big pools of transacting happen on their platform and decide to monetize the apps that drive it.

For example, Apple could expand its App Store fee to services platforms like Uber, DoorDash and Airbnb. Or decide that any sales made from shopping apps, of which there are almost 80,000, are subject to an App Store fee, too.

Apple could also decide to double down on Apple Pay as the Services monetization engine. It could decide that any app stored inside the Apple Pay wallet gets monetized when onboarded, accessed, and/or used. It could decide to take a small cut of sales made by any merchant that an Apple Pay user initiates from the Apple Wallet. It could white-label the Discover Network and make Apple Pay a payments new rail.

Regardless, Apple's options and decisions will be closely watched by courts, regulators and legislators who increasingly see Apple as uncooperative in following their decisions.

A final thought.

Tim Cook was quoted in a Wall Street Journal article yesterday saying that Apple's mission isn't to "be first, but best."

Except the iPhone really was the first and the best.

Apple AI (Siri) was one of the first and now one of the worst, and its EV wasn't first and is now dead. Whether "first not best" is the Apple mission today or just how things have turned out is subject to debate.

But it seems the anthesis of what made Apple great and delivered innovations like the iPod, iTunes and the iPhone that changed the world and the consumer's access to the digital economy. And that made everyone rush headfirst into the market to replicate.

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- **Board Member**
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- **Board Member**
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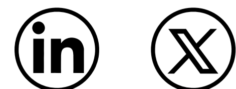

Karen Webster is one of the world's leading experts on payments innovation and the digital economy and a strategic advisor to CEOs and Boards of multinational players in the payments and commerce space.

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.

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