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The 2014 Payments Market: The Wrap Up

The Strawhecker Group Commentary

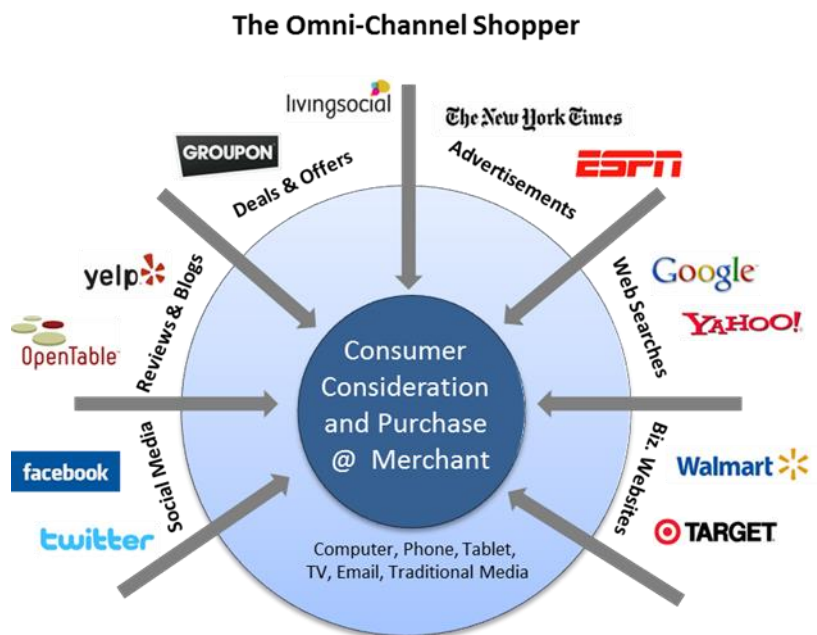
OMAHA, Neb., December 17, 2014 - Growth prospects for the payments industry in 2014 were clearly brighter compared to the past several years as the economy continued to heal, consumer confidence rebounded and the regulatory and political environment settled down. The brightened growth prospects appeared to drive a shift in the mindset of payment players. No longer were payment players taking a traditional wait and see approach in 2014, their mindset evolved into a take action and make change approach. As mobile solutions garnered attention, EMV awareness heightened, security breaches hit headlines and consumer engagement models evolved, traditional and non-traditional payment players across the spectrum implemented and piloted new technologies and collaborated with each other in order to move forward and provide solutions for the industry's most pressing needs. With that said, the payments industry continued to witness a rapidly changing landscape in 2014, one which shaped the strategies and roadmaps of the players.

Higher Consumer Expectations: The New Omni-channel Payments World Has Arrived – The evolution of customer engagement models meaningfully resonated with the industry in 2014 as many companies started to transform and position themselves to be able to interact anywhere, anytime, and anyplace with consumers. The center of attention was

all about investing in technology, building out infrastructure (or making strategic acquisitions) and repositioning their strategies to be able to meet consumers in the channels of their choice. Payment players are certainly aware that the development of omni-channel commerce has opened the door for major payment players to be the all-in-one payment processing solution provider by eliminating disparate payment processors and simplifying payment processing across the merchant's selling channels. More than two-thirds of shoppers can now be considered omni-channel consumers. These shoppers

research products and make purchases using a combination of technology, online platforms and physical stores. 46% of showrooming shoppers still ended up making a purchase in-store, an 11-point increase from 2011. Clearly, the disruption in online and offline payments appeared to take hold in 2014.

Mobile Payments – Cream Rising to the Top? - A renewed interest in mobile payments arose in 2014. The interest was clearly sparked by the introduction of Apple Pay (driven by the [world's number one](#)





[brand](#), according to Forbes) and similar efforts by competitors, such as Google (number three brand) increasing efforts to drive adoption of its NFC-enabled Google Wallet. Payment networks, merchants, wireless companies and others were clearly able to develop and refine their mobile offerings. Over the course of the year, mobile payment players emphasized the value-added features that come with mobile payments, such as incremental convenience, discount offers and rewards, in order to reverse the industries investment in decades' worth of education to make consumers comfortable with plastic cards. 2014 was the year that mobile wallet options started to be weeded out. However, despite these strides, mobile payments are part of the long game (see Google Wallet's pulling of the plug on its receipt of payment for digital goods.) Both sides of the payments value chain (consumers and merchants) need to see the value and utility of mobile payments for it to take significant share from card-based payments. Until there is a smart phone that does not run out of power and until merchants see the loyalty and reporting benefits of receiving mobile payments, payments made via a mobile wallet will remain miniscule.

Shifting Competitive Landscape – The payments industry shifted at a rapid pace in 2014. The pace of merger and acquisition activity was healthy in 2014 and will likely continue into 2015 as the biggest players scoop up talent from across the industry in order to keep up with new technologies and as consumers look for innovation. For example, there were over 15 somewhat sizable merchant portfolio (and enterprise) acquisitions in 2014, with buyers including large private equity firms and pension funds. The recurring and predictable revenue model, ability to leverage platform costs while expanding margins, with relatively low investment to grow and manage risk, continues to be attractive characteristics to many types of investors. On the flip side, the announced breakup between eBay and PayPal will further shake-up the landscape as it will allow PayPal to pursue some previously off-limit partnerships. The market also observed a shift in the strategies of major terminal players as the EMV movement picked up and traditional terminal players expanded further into the value chain.

A Renewed Focus On Incorporating Big Data Into A Payment Strategy - Big-data has become a buzz-word to capture many things but in 2014 payment players across the spectrum started to think more strategically about customer data and how that data can open up new growth avenues. In 2014, major payment players made rapid strides in the use of data technologies in order to create a differentiated value proposition and enable customized digital products and services. The focus in 2014 was clearly on how payment players could utilize data to help merchants identify ways to increase sales or reverse deficiencies in their business. For example, a restaurant realizing the value-add of knowing their customers average purchase size and reputation to similar businesses nearby is a tangible benefit that a merchant is willing

Did You Know?

The Federal government collected \$2.9 trillion in taxes and paid out \$3.6 billion in fraudulent refunds in 2013 resulting in a 0.124% fraud rate. According to TSG's database of over 2+ million card accepting merchants, the chargeback rate of bankcard volume was 0.111%.



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to pay for. Clearly, 2014 marked a transition in how data and advanced analytics could pave the way to produce more value and be more disruptive in the payments industry.

Fraud Continued To Hit Hard – It seemed that not a month went by in 2014 (or 2013 for that matter) without the media reporting on a large scale theft of data at major U.S. companies. The U.S continued to be a hotspot for all kinds of fraud in 2014. IT hacks continued to cause major headaches at companies such as Home Depot, Target, Kmart, Staples, JPMorgan and for millions of cardholders and customers. It was clear that the pace of EMV implementation and the awareness of data security issues were top of mind for many of the industry players. With the October 2015 EMV liability shift approaching, planning an EMV migration strategy was a top priority for payment players and merchants in 2014 (although there appears to be an uneven trajectory of implementation between retailers and issuers). Although the merchant migration to EMV may take years and the implementation may open a wider door to online fraud, the energy around security solutions in 2014 was heightened.

Technological trends are slowly but surely transforming the way we pay for items, from the rollout of new mobile payment options, to security enhancements and to how the way the transaction data is utilized. There is certainly no doubt that the payments industry is more dynamic and exciting than ever. This time next year, there will (should) be a chip in your wallet, you could be tweeting a payment and you'll likely have used your smartphone to pay for lunch. One thing for sure, you'll certainly have many options for how you will dole out your money.

About TSG

The Strawhecker Group (TSG) is a management consulting company focused on the payments industry. The company specializes in providing financial institutions, merchant acquirers, card associations, ISOs, processing companies, large merchants, and the investment community with advisory services to maximize their growth and profitability. TSG is also a resource of merchant acquiring industry research, benchmark studies and developing trends. For more information please visit www.TheStrawGroup.com.