We Are All Living Commerce

Five Insights to Help Tap the Potential of the Human Commerce Ecosystem

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Bank of America Merchant Services

The "human commerce ecosystem" is about the moments where payments and transactions occur within people's lives.

Transactions Are Changing. Are You?

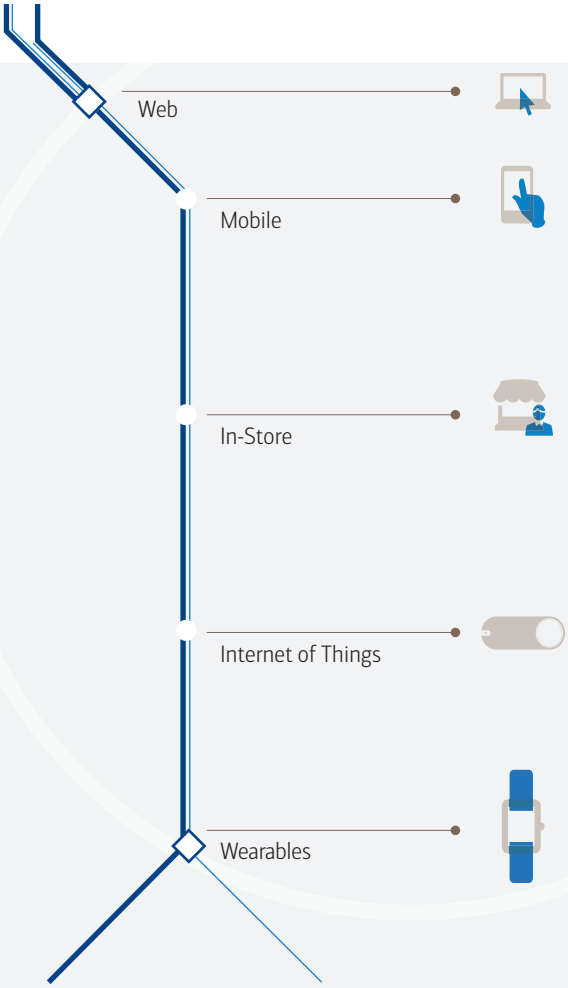
A transaction with a merchant used to be a very specific type of ritual: you either pulled out cash or you took a credit card out of your wallet and waited, perhaps exchanging pleasantries with the person behind the counter, and then continued on your way. But now, from PayPal® to Apple Pay™ to Amazon Dash, there are a dizzying number of technologies reinventing how we pay for things. The ways shoppers interact with merchants are becoming embedded into larger, more contextual experiences that better reflect how people live today.

"The way our clients and their customers get things done every day – using their smartphones or the Internet; utilizing new types of distribution paths – is fundamentally changing how they live. There's an expectation of choice and a demand for easy options," says Tim Tynan, CEO of Bank of America Merchant Services.

Every day, commerce is happening all around us. But in many cases, we no longer see it. The latte that's purchased with a Starbucks® app by someone before entering the store, the Uber® ride home from work, and the transactions that are built into everyday objects as part of the nascent Internet of Things—they are all creating payment possibilities that we couldn't have even dreamed of only a few years ago.

This larger, interconnected universe in which all of these transactions occur is what we're calling the "human commerce ecosystem." And it is growing every day.

Emerging technologies and new business models are challenging the old way. Global adoption of mobile devices is overtaking desktop usages, and over 4.9 billion connected "things" are in use in 2015—up 30 percent from 2014.[1] This constant connectivity is creating entirely new streams of data about consumers' lives. Payments are increasingly becoming as much about that data as they are about the transactions themselves. With deeper and richer information, merchants



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can reinvent their loyalty programs and design creative, new in-store and online shopping experiences. In essence, the human commerce ecosystem allows merchants to see consumers not only as shoppers but also as real people.

What's happening now isn't a blip or a trend. It's a generational shift. And with each new innovation, the demand increases for payments that are seamless and frictionless.

"It's the intersection of digital devices, business, and the human experience," says Tynan. "The human commerce ecosystem is about the moments where payments and transactions occur within people's lives. It's not about the payment itself. It's about the enhanced experience of buying a suit or a dress, purchasing a ticket to an amusement park, or using an app to order takeout from your favorite restaurant and feeling positive about the experience."

As our relationships with money continue to evolve, and transactions slip further into the background, merchants must consider how payments fit into the total customer experience. They must find ways to leverage the massive amount of data that is now available to develop new payment experience options that meet and anticipate ever-expanding customer needs.

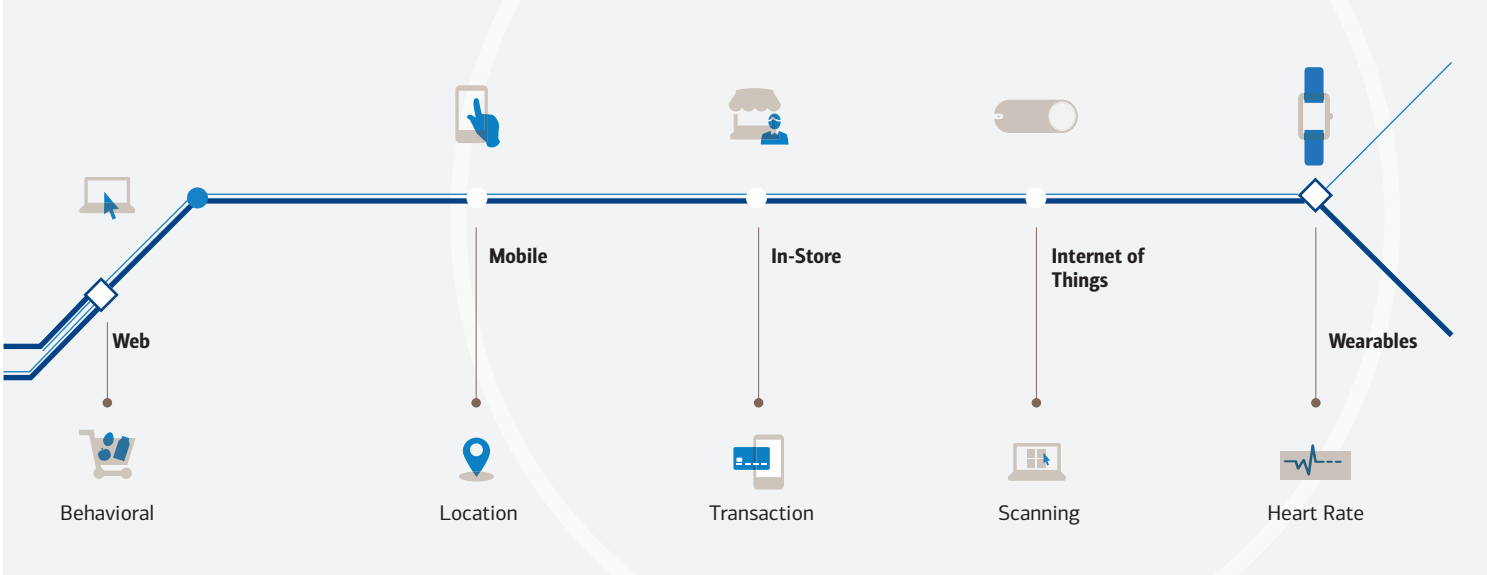
But these seismic shifts also present enormous challenges. Merchants slow to adapt will be left behind—as will those who fail to appreciate their responsibilities to the customer in terms of privacy and security.

Yes, the rules that once dictated the relationship between merchants and their customers are fundamentally changing. The pace of innovation is dizzying—and not every new technology will be a home run. To help navigate this new world of payments, here are the five things merchants need to consider in order to tap into the possibilities of the human commerce ecosystem.

Key Insights: Payments Are About the Exchange of Information

Recalibrate your understanding of what the act of making a payment means in today's world.

The payments industry has traditionally been about the exchange of value. In his "What the History of VISA Can Teach Us About the Future of Money" presentation, author David Stearns refers to payments as "sociotechnical systems (i.e., involving both social and technical elements) designed to serve a particular purpose: the exchange of value between parties."[2] But that value goes beyond money; it's also very much about the personal and collective experiences that are possible because of that financial transaction.



Today, payments are increasingly about the exchange of information. New payment technologies not only provide newfound conveniences to consumers, but they also deliver new streams of data to merchants. And when used properly, this information—our location, our shopping preferences, our social connections—can be used to further enrich customers' personal experiences. The exchange of value is still intrinsic to the transaction, but this new exchange of data opens the doors to adding new and different kinds of value based on that data.

"Right now, there is so much interest in what can be done with that record [of your payment history]," says Bill Maurer, professor at University of California, Irvine, and author of *How Would You Like to Pay? How Technology Is Changing the Future of Money*. "A lot of technology and partnership plays right now are about expanding the number of parties that can peer into that database and do things with it."

For example, the Speedpass+™ smart-phone app from ExxonMobil™ uses geo-location mobile payment technology to tap into customers' location information and direct them to nearby stations where, with a touch of their smartphone, they can authorize a pump for quick fill-ups.[3]

But the payment data also fuels other consumer benefits, such as the ability to earn rewards with Safeway® grocery stores. This end result is an innovation that gives both retailers a multifaceted tool to drive sales and loyalty.

This exchange of information represents a sea change. Back when credit cards first liberated consumers from a reliance on cash, the transaction itself remained largely anonymous—the data surrounding the event was locked down on both sides, by banks as well as merchants. Now, the books of our payment lives are being opened and their stories shared. The true innovators are rushing to glean insights from this flood of new data, while remaining hypervigilant of the fact that it must always stay secure.

Key Insights: Mobile Is About Way More Than Mobile.

Launching an app no longer qualifies as a mobile strategy.

As the book *Mobile Mind Shift* from Forrester reminds us, mobile is really not about apps and devices but the change in attitude that has come with the access they provide.[4] Those mobile devices we can't live without are really just a series of antennas that allow us to send and receive information and move seamlessly through different points of participation without interruption.

Mobile payments are a big part of this shift. According to the market research firm eMarketer, the number of mobile-pay-

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Cultural Anthropologist,
Professor at University of
California, Irvine

ment users in the United States is expected to hit 36.2 million next year, more than twice the number using digital wallets in 2014.[5] Increasingly, these payments are being embedded into other experiences which allows merchants and other innovators to create ways to put the customer front and center.

Uber® is an obvious example of a brand that has pushed the payment transaction to the backseat in favor of customer experience. However, it's important to note that Uber's success is tied not to the innovation in the payments per se but rather to the overall seamless experience that is possible for users.

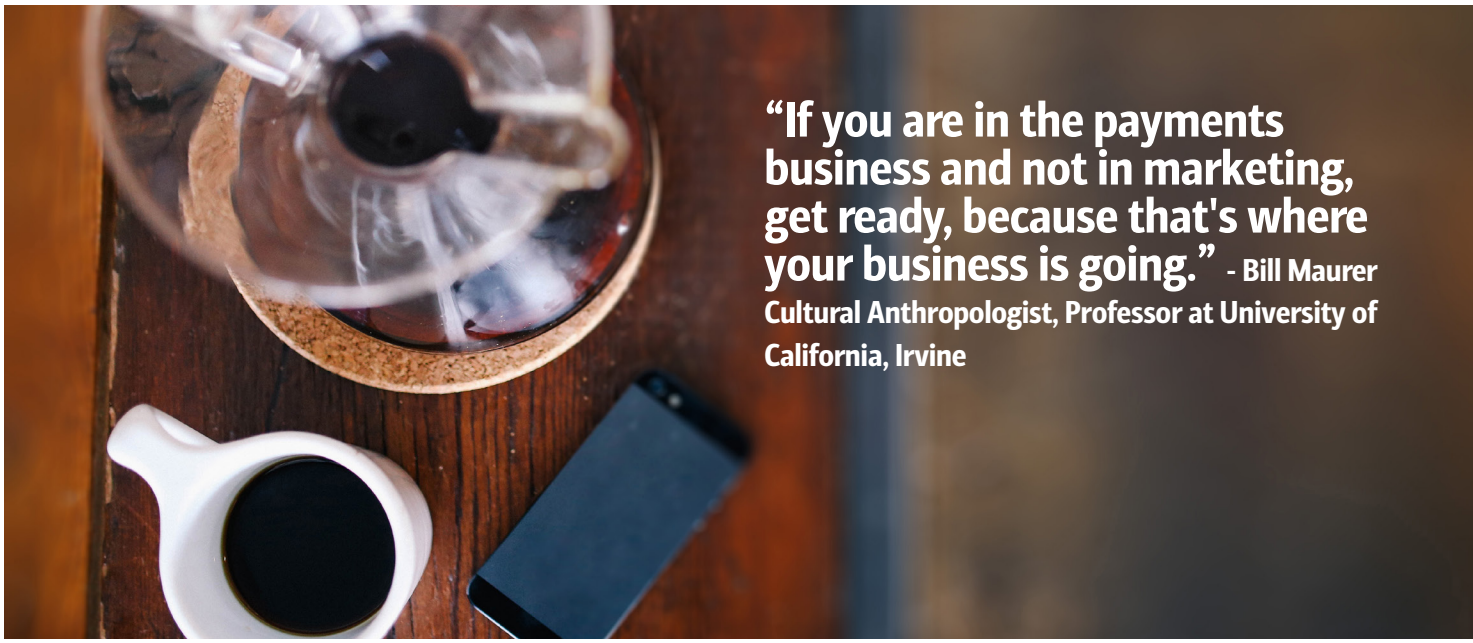
"People were not clamoring for a new kind of payment," says Maurer. "The experience of watching the car come and pick you up is what matters, not the payment."

Similarly, Square®, Clover Go®, and other new-model, peer-to-peer payment systems are laser-focused on meeting a customer need—the ability to use credit cards in environments that were usually relegated to cash—and in the process have opened the door to new business opportunities for small and midsized merchants.

Those same smartphones that allow shoppers to move through transactions without interruption also provide more and more categories of information about the things we do every day—those transactional records that follow us through our lives. And the more comfortable shoppers become with these new ways to pay, the more data that will flow.

"I think that's a natural evolution [the shift from cash to credit cards to human commerce experiences]," says Tynan. "I think the pace is faster today, the demand of the consumer is greater. A lot of that is being driven by technology catching up to needs and demands of individuals. And in some cases, it's about technology providing opportunities that people couldn't dream about before."

Look beyond devices and apps and focus on the connections that they make possible. Innovative payment solutions can help you tap into customer behaviors to find the intersection of technology, data, and the human experience.



Key Insights: Loyalty Is the New Frontier

In the near future, mobile wallets may become the norm. But loyalty programs offer a myriad of opportunities for merchants to use mobile to increase business right now.

According to a 2015 study from consulting firm Chadwick Martin Bailey, familiarity and usage of mobile wallets like Apple Pay™, Google Wallet™, and Visa's Mobile Wallet have doubled in the past two years.[6] But according to Forrester analyst Thomas Husson, featured in the *Wall Street Journal*'s CIO Journal blog, it is loyalty that consumers are most interested in. [7]

Combining elements like payments and loyalty is key to creating a seamless shopping experience on mobile that customers actually want to use. That's why new marketplaces, from Points.com to Plenti℠, are reimagining the loyalty model as a way to look beyond the relationship between a single retailer and a customer in order to provide experiences that fit into different aspects of our day-to-day lives.

"By diversifying the retailers that participate, the cobranding of loyalty is able to cut across sectors and levels of merchants and socioeconomic demographics," says Maurer. "Now, something like Plenti℠ shows that you shop at both Macy's® and Rite Aid®. It's a recognition that there's a whole person there, and there's plenty to be gleaned from that kind of depth."

In many ways, loyalty as we know it is being turned upside down. "I see the leveraging of loyalty programs as part of that future moment and experience," says Tynan. But he points out that loyalty programs must still fulfill a single-minded goal: repeat business.

As more people become convinced to pay with their phones, the next challenge is integrating the convenience of mobile wallets with the customer benefits of loyalty programs. Among retailers, Starbucks is leading the way with its Mobile Order & Pay app, which is helping the company shake up the normally one-dimensional world of loyalty.

The coffee giant has already begun building its own digital ecosystem by allowing members to earn "Stars" as rewards when they use the ride-sharing app Lyft®.[8] In the future, the company expects its mobile payment network to involve other companies. According to a company statement, the platform would allow Starbucks "to bring to the table the pieces necessary to build a consumer proposition for a mobile payment network with retailers outside of the store footprint in fiscal year 2016."[9]

Starbucks plans to add upselling features to the app for loyalty club members. If a user orders an iced tea on the app, for example, a photo may pop up for a sandwich or some other suggestion that could be based on the customer's previous orders.[10]

> "Behavioral, transactional, loyalty—they all provide opportunities to learn more about the customer."
> - Tim Tynan, CEO, Bank of America Merchant Services

According to Scott Maw, Starbucks chief financial officer, roughly 30 percent of Starbucks transactions are related to its loyalty program.[11]

"If you are in the payments business and not in marketing, get ready, because that's where your business is going," says Maurer.

Regardless of your business model, learn from Starbucks and consider ways your mobile payments offerings can energize your loyalty strategy.

Key Insights: See the Person Behind the Consumer

If you're looking only at one subset of data on your customers, you're missing the complete story.

Social media has made it possible to learn more than ever about the lives of customers, including the products they like and the places they like to shop. Combining these social insights with transactional data provides merchants with amazing opportunities to add value—and increase business—by providing customers with experiences and offers that are hyper-relevant.

"The number one focus item for any merchant is to have their customers come back," says Tynan. "And the best way to do that is to know something about your customers. Know about them and provide incentives based on that knowledge."

Among retailers, few know their customers better than Target®. But its data mining efforts go way beyond serving up offers to its Facebook® fans. The company is currently building an internal center for data analysis in order to further enhance the mobile experience for shoppers. Advances include in-store location capabilities and the testing of iBeacons that push out special messages to customers when they are in the proximity of a store and then deliver coupons straight to their phones as they enter.[12]

Imagine the possibilities that exist when combining the consumer knowledge that's available through social media with transactional data via mobile payments. As customers continue to go to Instagram or Facebook® to voice product, brand and other preferences, that behavior, combined with payments information embedded into a seamless online or in-store experience, will present exciting new ways for merchants to deliver value with social commerce.

"Fundamentally, the natural integration of commerce with consumers' daily social habits on these platforms will be the keys to success," says Tomás Campos, general manager, online and mobile, for prepaid digital – product provider Blackhawk Network® , in an article from Pymnts.com.[13]

"Behavioral, transactional, loyalty – they all provide opportunities to learn more about the customer," says Tynan. "Using data analytics, we provide tools that translate into actions so that our clients can be more effective in using that data to generate repeat business. The underpinning of all this technology should always be: does it drive business?"

Today, it's vital to look at various aspects of your customers' lives to prove you see them not as one-dimensional shoppers but as three-dimensional human beings.

Key Insights: Look to the Online World to Improve the Offline Experience

In many ways, the real innovation around payments is happening on the retail level and the exchange of ideas is happening between the worlds of digital and in-store shopping.

Look at Amazon®, whose success thus far is built around creating experiences that make you want to stay and shop on its site. The site's payments function is integrated and easy, with helpful pop-ups that show the company who you are. With its best-in-class analytics, Amazon seems to know more about you than you do.

In recent months, Amazon has expanded its business model from the digital space and brought it into people's homes with ideas like Amazon Dash.[14] Instead of just recommending things to buy when you're online, Amazon embeds itself into your life to make reordering household products as easy as pushing a button.[15]

And then there are companies like Colorado-based Twyst Inc., which is migrating the self-checkout aisle into consumers' shopping bags. The startup, which is currently working with several Fortune 100 companies, makes smart, Internet-connected bags that founder Kevin Schaff says create an "easier-than-Internet experience" by allowing shoppers to simply drop what they need into a bag and walk out of the store.

The driver of the idea is the fact that at many retailers, data showed that when their checkout lines reached a certain point, people abandoned their shopping carts. "Our goal was, how do you not only reduce the line but eliminate it?" says Schaff. "What feels like shoplifting today is the POS of the future."

Walmart® experimented with Scan & Go technology in 2014, but moved away from the program due to lack of interest.[16] The difference between it and Twyst: Walmart's Scan & Go app still required a stop at a self-checkout station.[17]

Schaff says the possibilities are endless for the uses of the new data that can be gathered via sensors embedded into shopping bags. "You can have information on what products go in, what come out, and how long someone was shopping at a store," he says. "There are all these new and unique forms of data."

With that data, the in-store salesperson effectively becomes a walking, talking recommendation engine to improve the shopper's in-store experience.

Much like the Apple Store® and other retailers offering similar in-store designs, the idea is to remove the traditional payment ceremony from the shopping experience. And whether the transaction occurs in a store, in a cab, or at a movie theater, merchants need to understand that customers are becoming comfortable with the fact the experience itself doesn't feel like they are exchanging money at all.

A Foundation for Change

It's important to note that the back end of the transaction and payment system hasn't fundamentally changed. What has been transformative are the multiple layers that are being built atop this transactional framework.

Naturally, most of the excitement around the evolution of payments is centered on the advances in technology and design that are allowing for these contextual experiences to happen. But banks and payment processors play a vital role at the center of the human commerce ecosystem. They touch every aspect of this changing payments landscape. And without the strong foundation they provide—the processing and encrypting that make these new types of transactions seamless and safe—these innovations would not be accessible to the masses.

"Without banks and payment processors, merchants would have to spend massive amounts of dollars to integrate the systems," says Derrick Carpenter, SVP Industry Solutions and Platforms, Bank of America Merchant Services. "It would be a very bifurcated approach to the market, and it would make it difficult for new technologies to proliferate."

Remember: no matter how much friction is removed from the purchase—whether it's reordering detergent at home with the push of a button or side-stepping the checkout line thanks to an in-store shopping app—the transaction itself remains: somewhere there is an account being credited and another account being debited.

Where does Bank of America Merchant Services reside within the human commerce ecosystem? Everywhere. It provides the connectivity that makes the conveniences we are fast becoming accustomed to functionally possible.

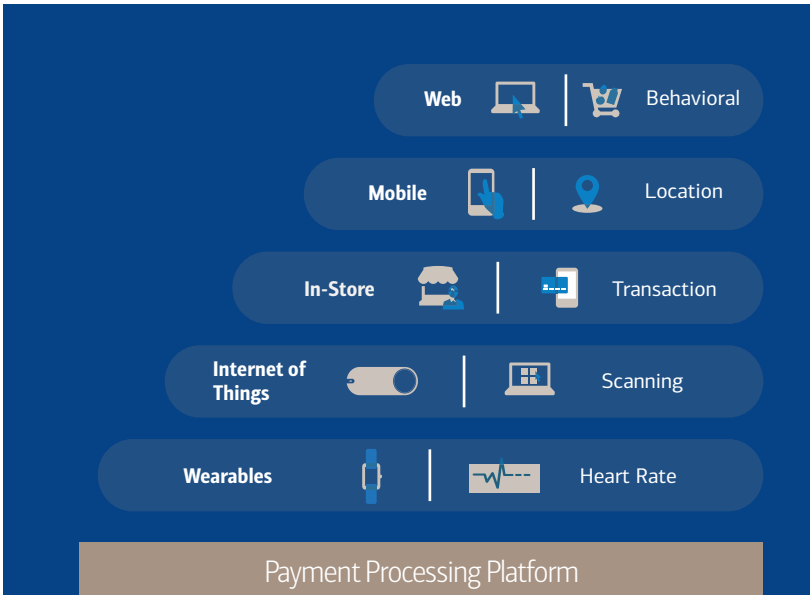
But the innovations of the payments space are also pushing the payments industry further away from an exclusively financial focus. With payments becoming so intrinsic to the experiences that consumers have with brands, the smart merchant organizations are letting their marketing team lead the conversations about how they can fit within the human commerce ecosystem.

False moves can seriously damage a company's brand. And increased security concerns heighten the sense of responsibility that merchants, banks, and technology providers must assume in order to gain and keep the trust of customers.

As the rituals around the transaction keep changing, the forms that they can take are becoming endless. But finding the right way to interact with customers on the transaction side is essential. New touch points with the consumer, in the form of advances like mobile wallets and beacon-empowered purchases, require that merchants remain hypervigilant in the face of new security concerns.

While the fraud rate for nonmobile transactions decreased by 50 percent over the past four years, it increased by 81 percent for mobile transactions over the same time period.[18] Successfully providing payment experiences that fit within customers' lives call for making the right decisions about how you interact with customers during the transaction, and then how you use the data that you are entrusted with.

"Digital commerce is incredibly personal," says Tynan. "Your smartphone is something you hold in your hand; it's intimate.



Embrace the evolution of the ritual of the transaction.

And it is changing how people live. Privacy and protection and security are very much a part of the underlying infrastructure because a transaction needs to provide comfort along with that personal, intimate experience. As leaders in cybersecurity, physical POS, and e-commerce and cloud transactions, that's one of our roles in this new ecosystem."

With all of the new data streams available thanks to digital commerce and the human commerce ecosystem, Tynan believes there are ample opportunities for merchants to remove even more friction from the shopping experience.

"I think those brands that have a true vision of where they want to go are thinking about it this way: how can I supplant myself in all these places where my customers are engaging?" he says. "At Bank of America Merchant Services, we enable roughly one in every 5.5 transactions in the United States. As a payments processor, it's our job to maintain the foundation of security, functionality, and reliability that is more important than ever in today's digital world."

The best advice is this: Embrace the evolution of the ritual of the transaction. Use technology, data mining, and a design-centered approach to create payment experiences that feel organic and are contextual for shoppers. Be where your customers are today. Find the right partners to help your organization anticipate where it will be in the future.

CONTACT US

For more information on how Bank of America Merchant Services can help you optimize your business and customer experience through the Human Commerce Ecosystem call your Bank of America Merchant Services business consultant or 855.833.3614. We are here to help.

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Apple is a trademark of Apple Inc., registered in the U.S. and other countries. Apple Pay is a trademark of Apple Inc.

[1] http://www.gartner.com/newsroom/id/2905717
[2] https://www.era.lib.ed.ac.uk/bitstream/handle/1842/2672/Stearns%20DL%20thesis%2007.pdf?sequence=1
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