

Connected Commerce



Connected Commerce and Payments – The Case for Change

- Margins in traditional payments are diminishing
- Merchants are demanding lower transaction costs and expanded services
- Consumers, merchants and regulators demand greater security and protection
- Consumers expectations and demands are increasing, and they can be found in more ways than ever
- Newer entrants are gaining traction as consumers seek alternatives and more commerce move online and to the mobile device (e.g., PayPal, Obopay, Amazon Payments)
- New technologies around intelligent networks and edge applications afford advanced functionality and security at point-of-sale
- Merchants, Advertising Agencies, CPGs and Banks are all trying to capture consumer attention and be relevant at the moment of purchase
- Existing players are looking to leverage their issuer and acquirer bases, and scale ... to monetize the market share they already have

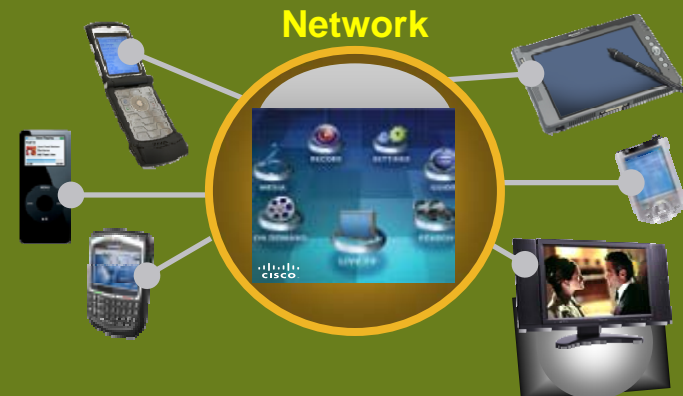
The Connected Consumer: From Isolated to Integrated

Current State



- Content locked to each device
- Inconsistent (and typically cumbersome) user interface on each one
- Managing digital complexity has led to the development of “closed” systems
- Each device is its own platform – “walled garden” approach

Future State



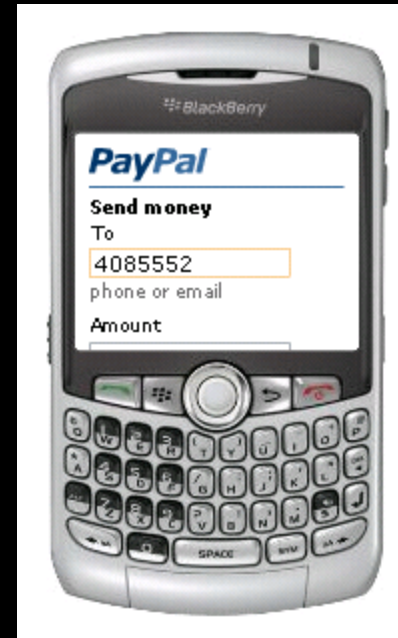
- Content in the network, available to all devices
- Consistent, simple, intuitive user interface across all devices
- Designed as a connected portfolio for sharing; “intelligence” in the network scales; simplified user experience
- The network is the platform for extending the user experience through open interfaces

Connected Commerce – Three Waves

- Wave 1 = Virtual Attempts to Mimic Physical
 - Retailers replicated or augmented offline business models with online storefronts
 - Although security concerns were high, traditional banks and payment mechanisms dominated during this wave
 - Wave 2 = Virtual Establishes its Own Rules
 - New business models that exploited the unique attributes of the Internet begin to emerge
 - Amazon, eBay, Google and others introduced us to long-tail effects, click-stream analysis, on-demand support / advise, real-time recommendations and hyper-targeted advertising
 - Consumers have clearly valued the types of propositions enabled by the second wave of connected commerce
 - Wave 3 = Physical Attempts to Mimic Virtual
 - Physical commerce explores business models and value propositions introduced in virtual commerce
 - Enabled by connected consumers and their portable, networked devices, and by merchants with intelligent networks and advanced information analytics
- ▶ Wave 3 represents both an opportunity and a threat for traditional banks and payment providers

PayPal in the physical world

- Customers can now use the digital payment service **PayPal** to pay in **Moosejaw**'s seven stores
- Once an order is rung up, the cashier provides the customer with the amount of the sale and the e-mail address of the store. If the customer can access the Internet through his phone he can log in to his PayPal Mobile account and e-mail the funds to the store; otherwise, he can initiate the payment through a text message
- “The concept is to take all the things we do across all the channels and let customers use them in stores, online and on the mobile phone,” says Jeffrey Wolfe, chief operating officer



In our research, 87 percent of current mobile alternate payment provider users (of services such as PayPal, Obopay, etc.) indicated strong interest in using mobile SMS or a similar method to initiate payments in physical stores

Amazon's TextBuyIt: Compare In the Store, Text to Buy

- Amazon's pioneering TextBuyIt service allows customers to enter a product name or ISBN into mobile and check on Amazon's price and availability via SMS
- If Amazon offers product, its page with current price and description will appear on mobile browser
- Customers can then buy with a one-step SMS transaction
- Similar service from Amazon Japan allows customers to simply scan barcode with phone
- **Thought Starter:** Real-time price transparency a threat to retailer margins
- Will TextBuyIt turn competitor's stores into Amazon "showrooms"?



Amazon TextBuyIt™
Text an item name to 'AMAZON' (262966)

Find and Buy Items on Amazon.com
using your mobile phone

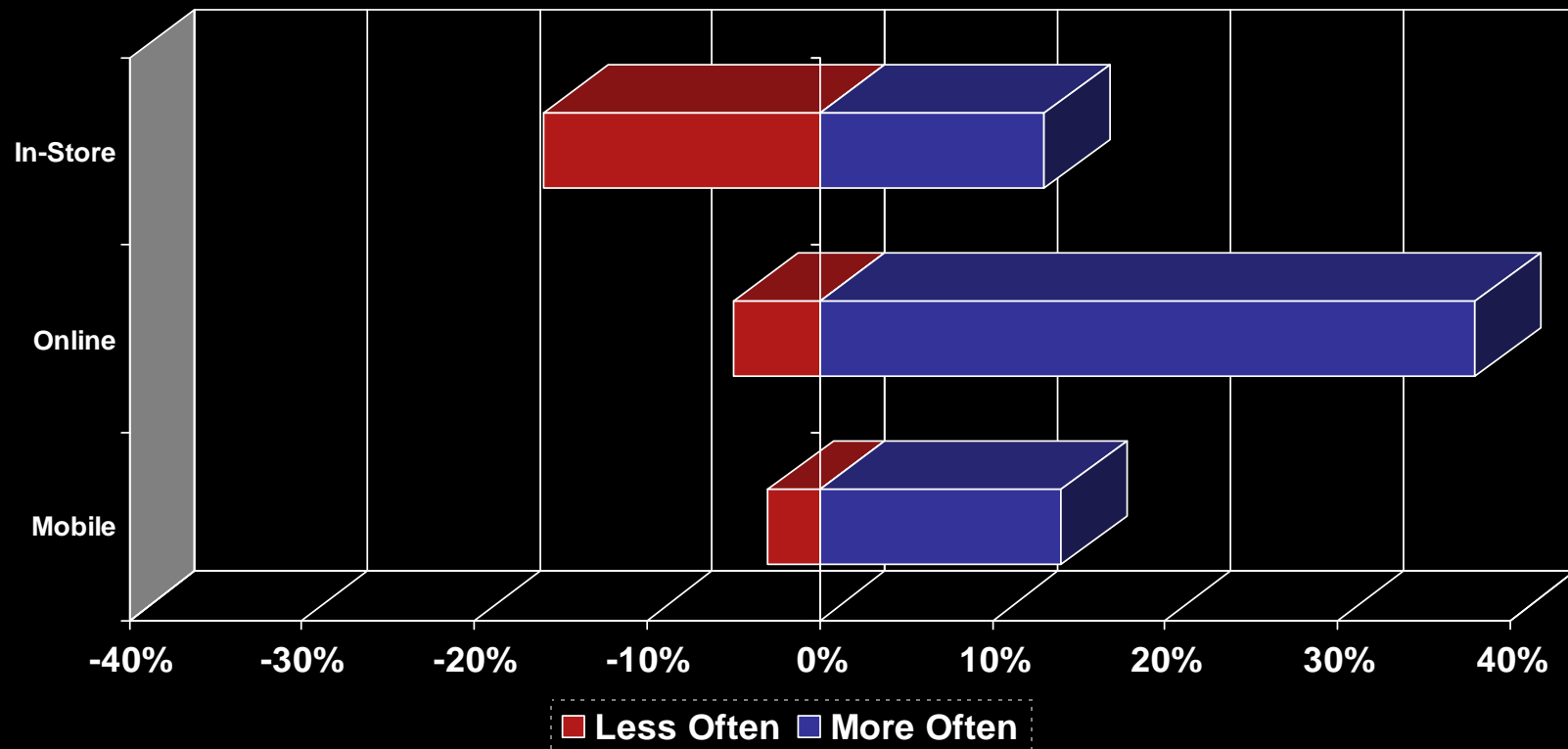
Using TextBuyIt is easy, try it now:

- 1** Text search keywords to 'AMAZON' (262966)
- 2** Reply with 1 or 2 to buy an item from your search results
- 3** Answer call to hear details and confirm order

You can search on any keyword (i.e. item name, author, artist, etc.) or ISBN/UPC code

Consumers plan to shift shopping behaviors to “connected” channels

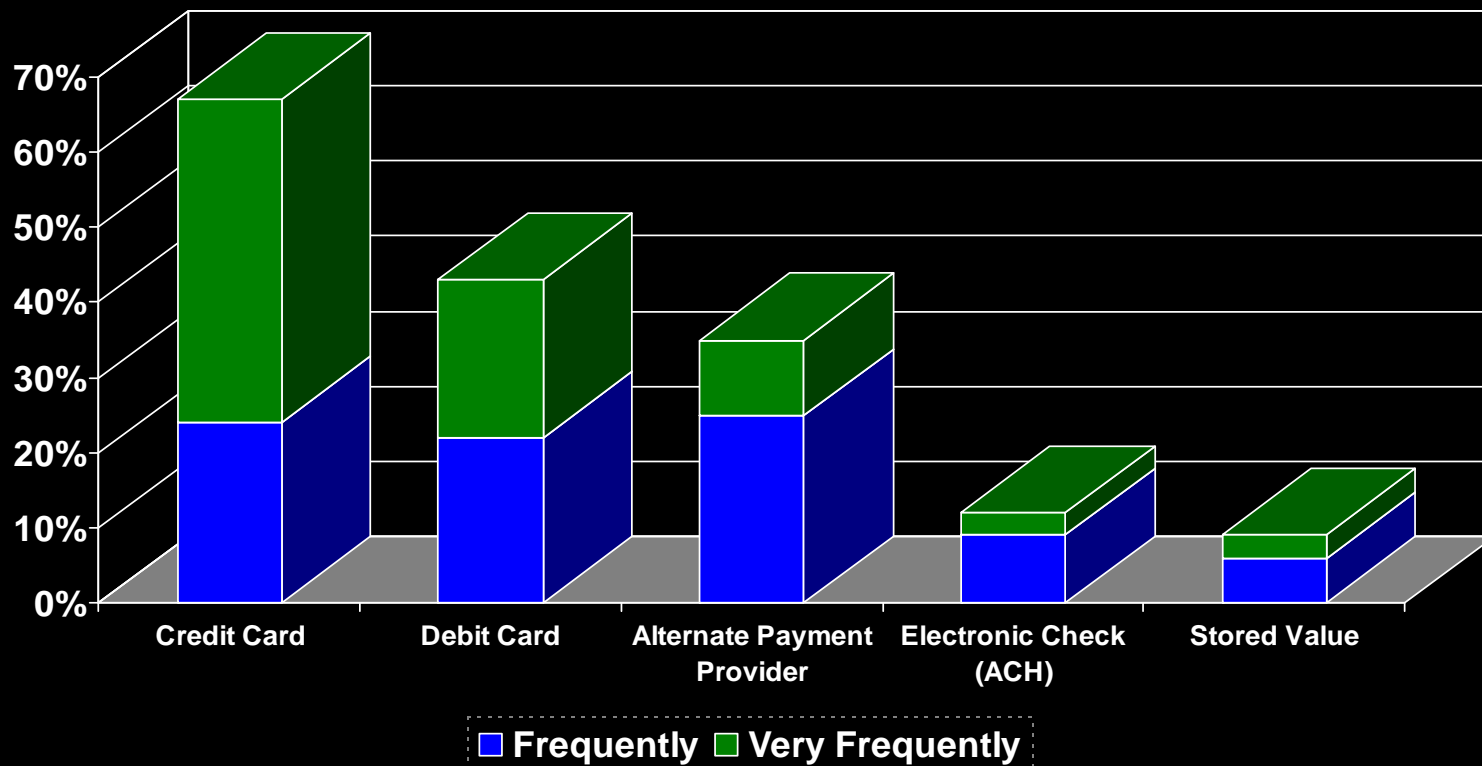
Expected change in shopping frequency over next two years based on channel



Source: Cisco Consumer Survey On Consumer Shopping and Payment Behaviors, 2008; Sample Size = 1522

While credit card continues to dominate online sales today ...

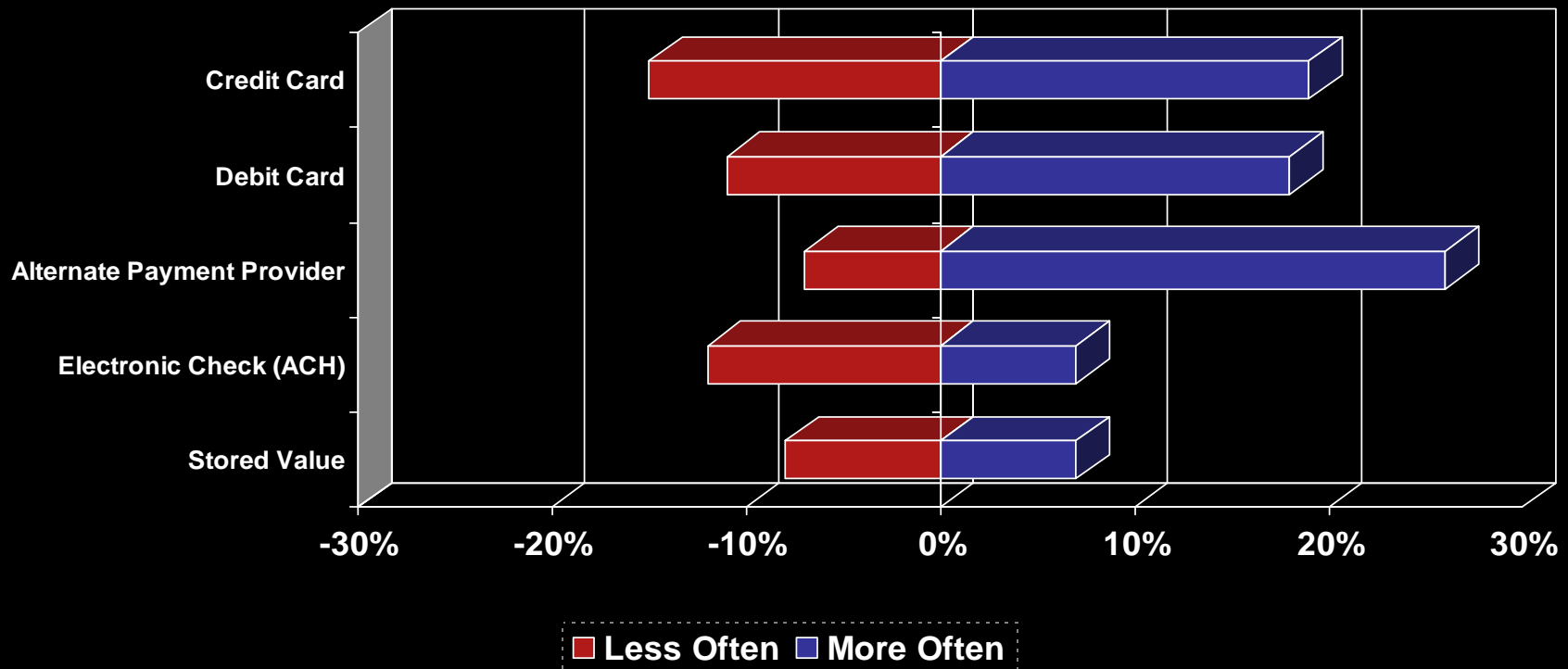
Frequency of payment mechanism usage online



Source: Cisco Consumer Survey On Consumer Shopping and Payment Behaviors, 2008; Sample Size = 1522

... alternate payment providers, such as PayPal, appear to have momentum

Expected change in frequency of payment mechanism usage online

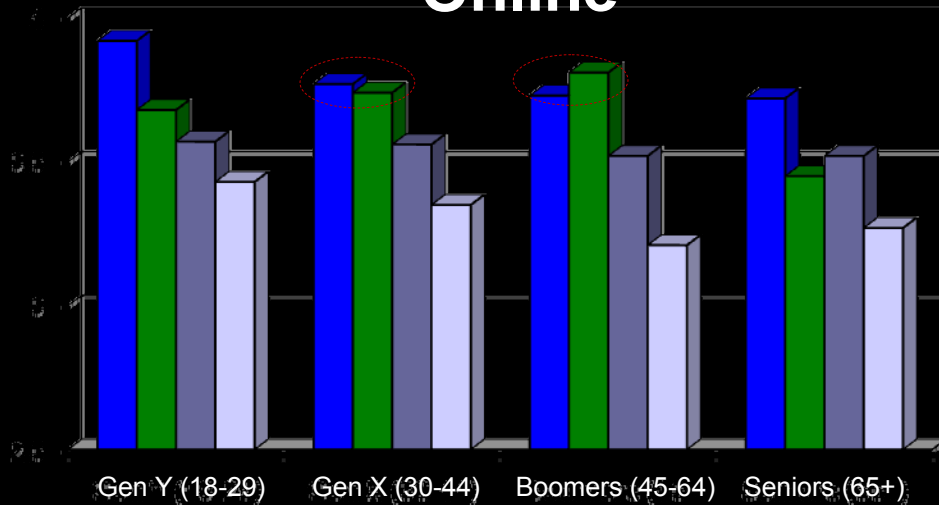


Source: Cisco Consumer Survey On Consumer Shopping and Payment Behaviors, 2008; Sample Size = 1522

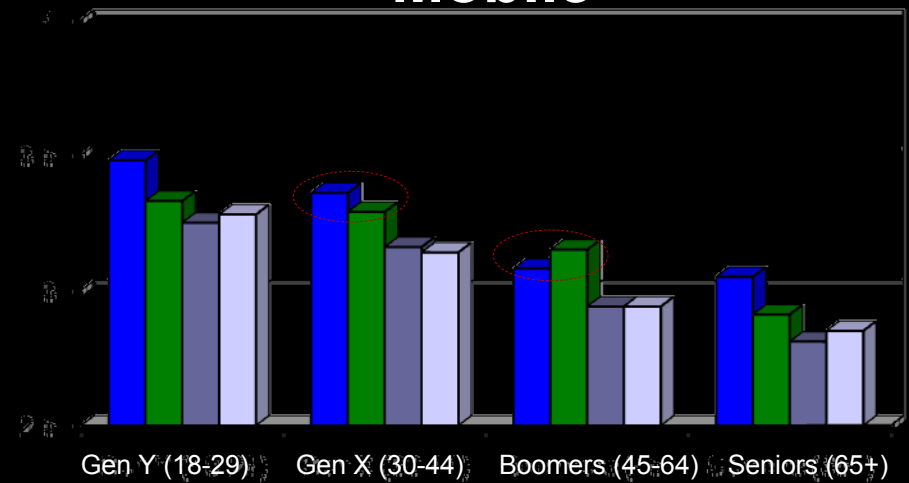
Consumers believe alternate providers deliver at par, or better, trusted payment solutions

Trust of payment services when making purchase
 (1='Distrust Very Much' <-> 5='Trust Very Much')

Online



Mobile



■ Banks
 ■ Alternate Payment Providers
 ■ Retailers
 ■ Internet / Mobile Service Providers

Source: Cisco Consumer Survey On Consumer Shopping and Payment Behaviors, 2008; Sample Size = 1522

Innovate to Ensure Relevance

- Provide commerce-enabling services with greater transparency, security, speed and flexibility to stay relevant:
- Use access to both merchants and consumers to provide new revenue sources to the merchants and value-added services to consumers
- Provide customized payment terms or offer “matching” at consumer point-of-purchase
- Manage loyalty programs for merchants to lower the cost of running these programs and improve ease of use and benefit accumulation for consumers
- Help consumers make sense of their spending patterns, and provide guidance and recommendations
- Provide advertisers or product manufacturers, in collaboration with the merchant, access to consumers at or near point-of-sale to offer real-time, targeted recommendations and promotions gleaned from the customer’s profile, transactions and behavior analytics
- Build a subscriber-referral model for merchants to bid for customer attention across other merchants

» **The network links physical and virtual worlds**