

J.P.Morgan

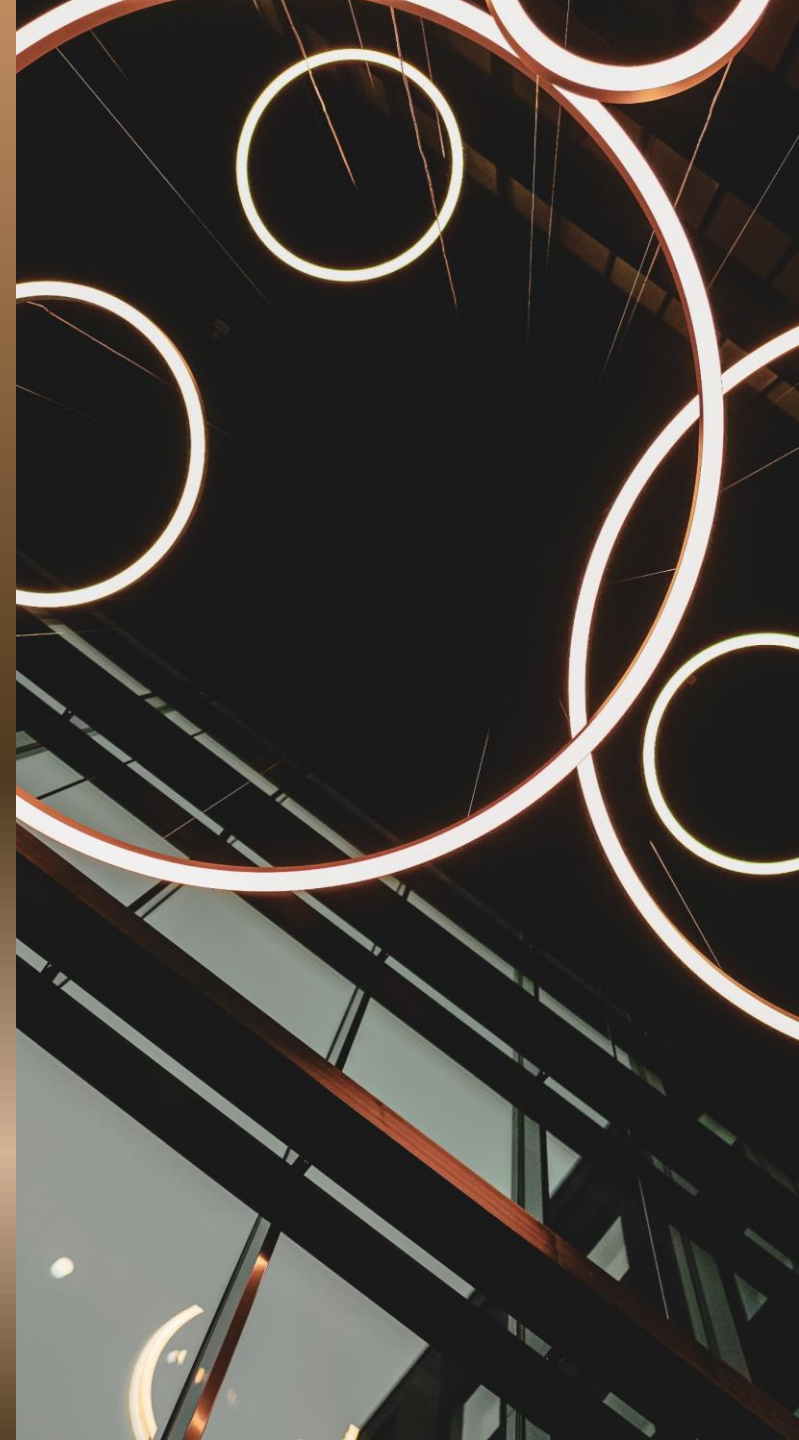
PAYMENTS

Every payment tells a story

Understanding the new strategic
value of payments

David Mallow

Business Development Executive, J.P. Morgan





J.P.Morgan

PAYMENTS

A challenging yet transformative environment

Macro factors

Declining economy



- Economic decline globally, especially with US and Europe entering or in recession
- Continued inflation reducing consumers' ability and appetite to purchase
- Lower consumer confidence globally, amplified by high unemployment

Continued (but easing) supply chain pressure



- Continued challenges leading to inventory shortage, consumers switching for new brands or retailers
- Increase in cost of raw materials and shipping squeezing margins

Shifting landscape for C&R



- Consumer expectations continues to drive business model changes across C&R
- Rising demographic of digital natives changing purchasing decision factors
- Growth opportunities require quick pivots and nimble shifts end-to-end

Subsector themes



CPG

- Non-discretionary products more resilient
- Expand to new business models & sales channels to 1) target new consumers; 2) evolve towards multi-party commerce



Retailer

- Focus on differentiated experiences and discount retailers
- New expectations on physical vs digital channels driving continued growth of omnichannel & digital strategies



Restaurant & Food Services

- Stressed margin environment leading to focus on profitability
- Shift towards digital models (e.g., virtual brands, loyalty initiatives) – for both D2C & B2B2C engagement



Agriculture

- Increasing demand especially in emerging markets
- Focus on automation, cost-reduction to maintain efficiency to keep up with demand

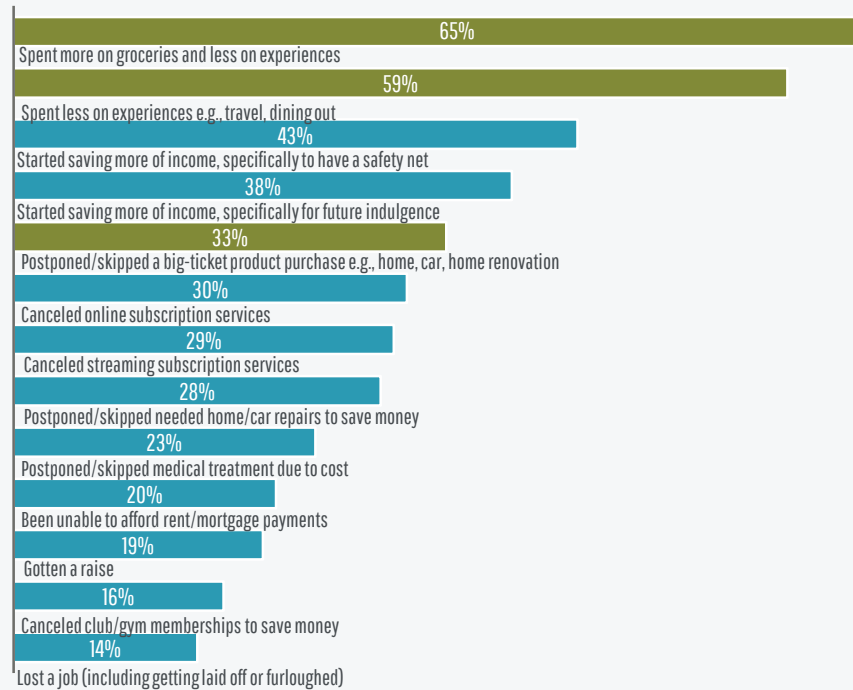


Apparel & Luxury

- Luxury brands gaining momentum driven by social commerce and demand from Gen Y & Z
- Growth opportunities from eCommerce & omnichannel

Discretionary spending has dropped

Recent changes in household spending on activities/products according to US adults, Aug 2022



Source: Recent Changes in Household Spending; Insider Intelligence.com, August 2022
<https://chart-na1.emarketer.com/258564/recent-changes-household-spending-according-us-adults-aug-2022-of-respondents>

US consumers are cutting back and prioritizing spending on necessities

- 93%** Are cutting back on purchases due to inflation, and are prioritizing food, gas, and housing
- 83%** Are looking for sales, shoppers are more willing to look for cheaper substitutions than eliminate spending
- 48%** Adjusted their spending on dining out by cutting back (e.g. potentially downgrading their dining options)
- 24%** Is the personal savings rate in the US compared to 36% in China, and 12.6% in the EU
- 71%** Expect periods of widespread unemployment in the next 5 years

Source: Spotlight: US Consumers During an Era of Uncertainty; Insider Intelligence.com, September 2022
<https://content-na1.emarketer.com/spotlight-us-consumers-during-era-of-uncertainty>

What does this mean for retailers and business?



Cost Efficiency



Consumer insights



Ease of checkout



Differentiated experiences

J.P.Morgan

PAYMENTS

Five trends are changing the way Americans shop and pay.



Mobile Commerce



Buy Now, Pay Later



Direct-to-Consumer



Click & Collect



Ecosystems

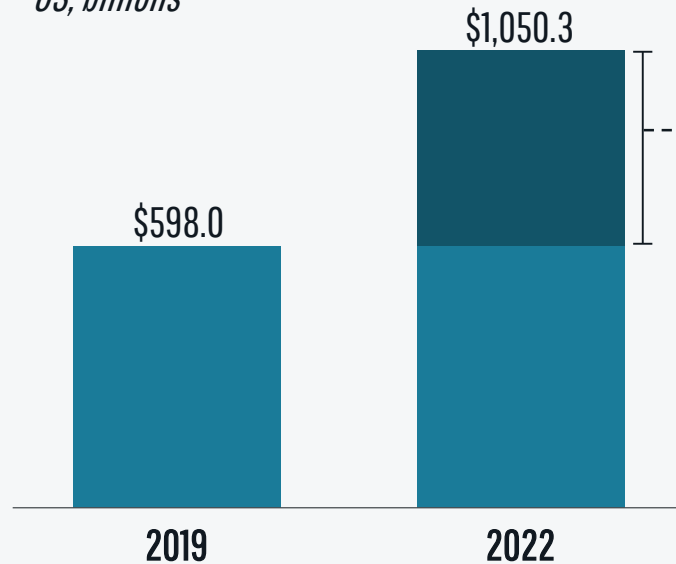
Technology, the global pandemic and consumer-driven experiences have changed payments and treasury priorities.

US retail e-commerce growth by the numbers

Digital technology is creating new ways for consumers to connect, interact and transact with their favorite brands

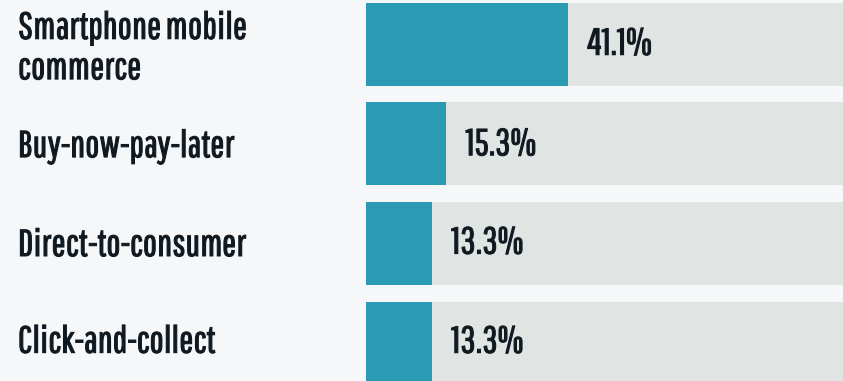
US Retail E-Commerce Sales

US, billions



% of Total E-Commerce Sales Growth

2019-2022



Four key shopping and payment trends are driving the growth of US e-commerce sales.

Mobile technology is transforming payments

Remote and proximity (in-store) mobile payments can create more seamless customer experiences for retail, lodging and hospitality



Our Findings

Proximity spending growth will outpace adoption gains as users engage more regularly.

- **Mobile apps are becoming better replacements for physical wallets.** Providers are adding support for driver's licenses and exploring car or hotel keys.
- **Rising merchant acceptance will boost usage.** Around 70% of merchants accept the technology, up from 50% pre-pandemic.
- **Consumers want convenience.** It's the top factor in deciding to pay via mobile wallet. New spending categories and better UX can improve ease of use.

Merchant Considerations

Offset potential spending declines by becoming consumers' primary payment method.

- **Target Gen Zers and Alphas.** As they gain financial independence, their sky-high smartphone penetration represents a desirable base.
- **Make transactions seamless.** Half of customers have had contactless tech fail. Not resolving these issues could deter repeat usage.
- **Educate consumers.** Email, social media, and in-store signage indicating people can use their wallets will drive engagement.

By 2026, nearly 30% of consumers' average retail spending will be transacted through mobile wallets— almost triple pre-pandemic levels.¹

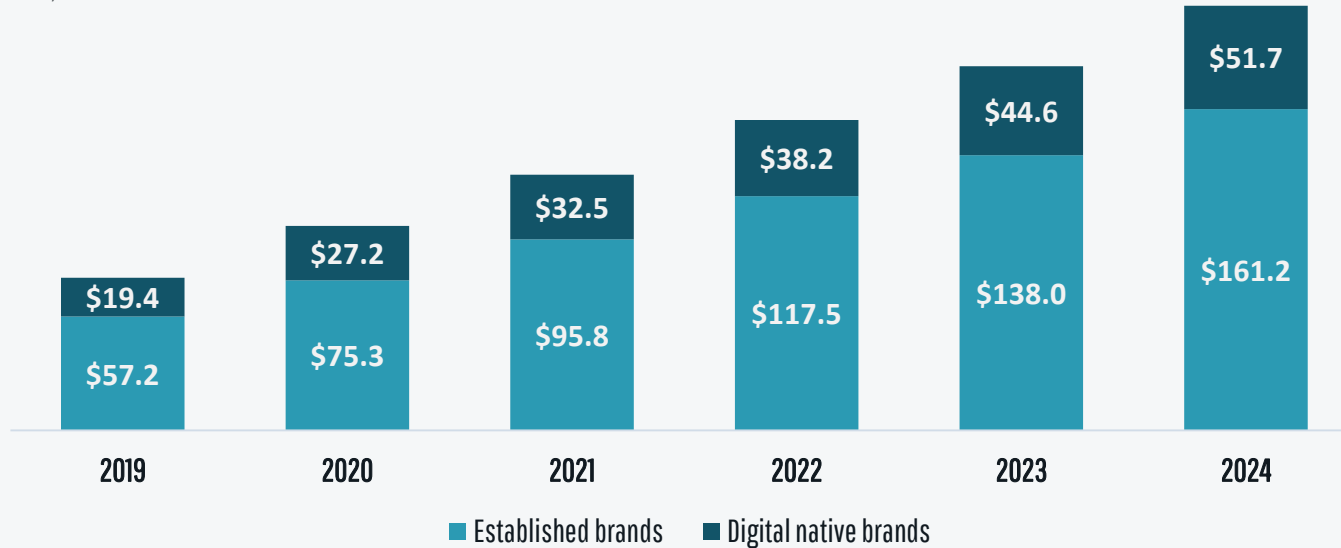
¹ Business Insider Intelligence US Proximity Mobile Payments 2022
<https://content-na1.emarketer.com/us-proximity-mobile-payments-2022>

Direct-to-consumer is personalizing commerce

The growth of direct-to-consumer e-commerce is being driven by both new and established brands

Established Brands Vs Digital Native Brands; E-commerce Sales

US, billions



- Established brands capture about 3 out of 4 direct-to-consumer e-commerce dollars.
- Everything from footwear, apparel and eyeglasses to prepared meals and pet supplies are going direct-to-consumer.

Successful direct-to-consumer businesses closely align payments with finance, marketing and product priorities.

Buy now, pay later is driving merchant sales

Buy now, pay later (BNPL) options in stores and online are driving higher conversion rates and bigger ticket sizes

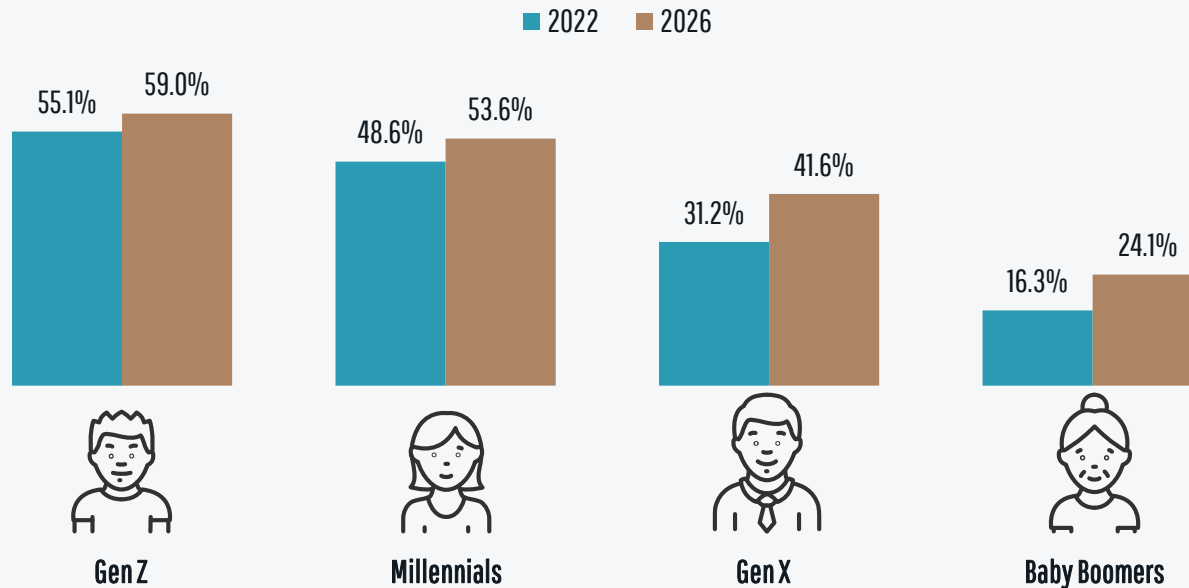


BNPL key takeaways

- BNPL acceptance is rising across categories, both in-store and online
- Consumer interest is expanding beyond younger generations
- Increased scrutiny may lead to regulation that impedes BNPL growth

US Buy Now, Pay Later (BNPL) User Penetration, by Generation, 2022 & 2026

US, billions



Merchants should balance the risks and rewards of BNPL which is coming under increased regulatory scrutiny in the US.

Click-and-collect works to stores' strengths

Click-and-collect e-commerce grocery sales are expected to outpace total e-commerce growth

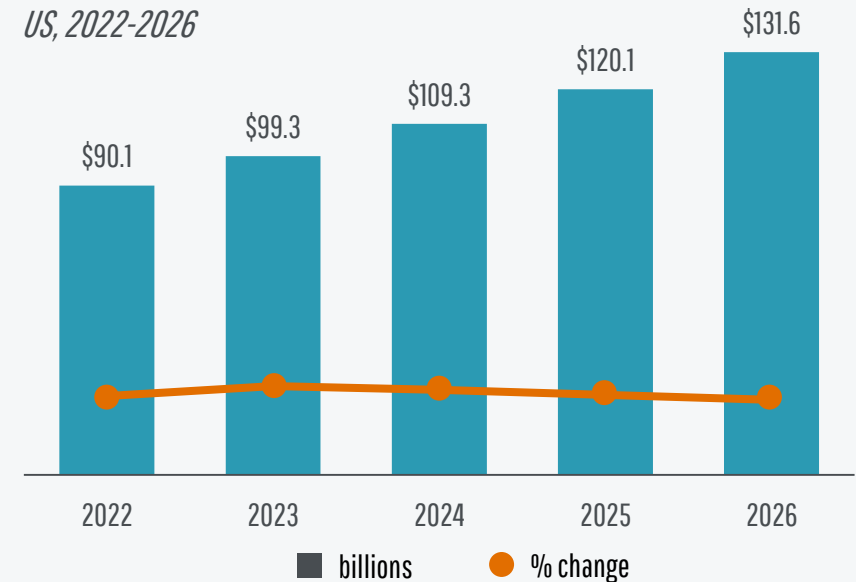


Grocery is showing the way forward

2023 total US grocery click-and-collect e-commerce sales are forecast to grow 15.1% to reach \$56.48 billion – outpacing total retail e-commerce sales growth.

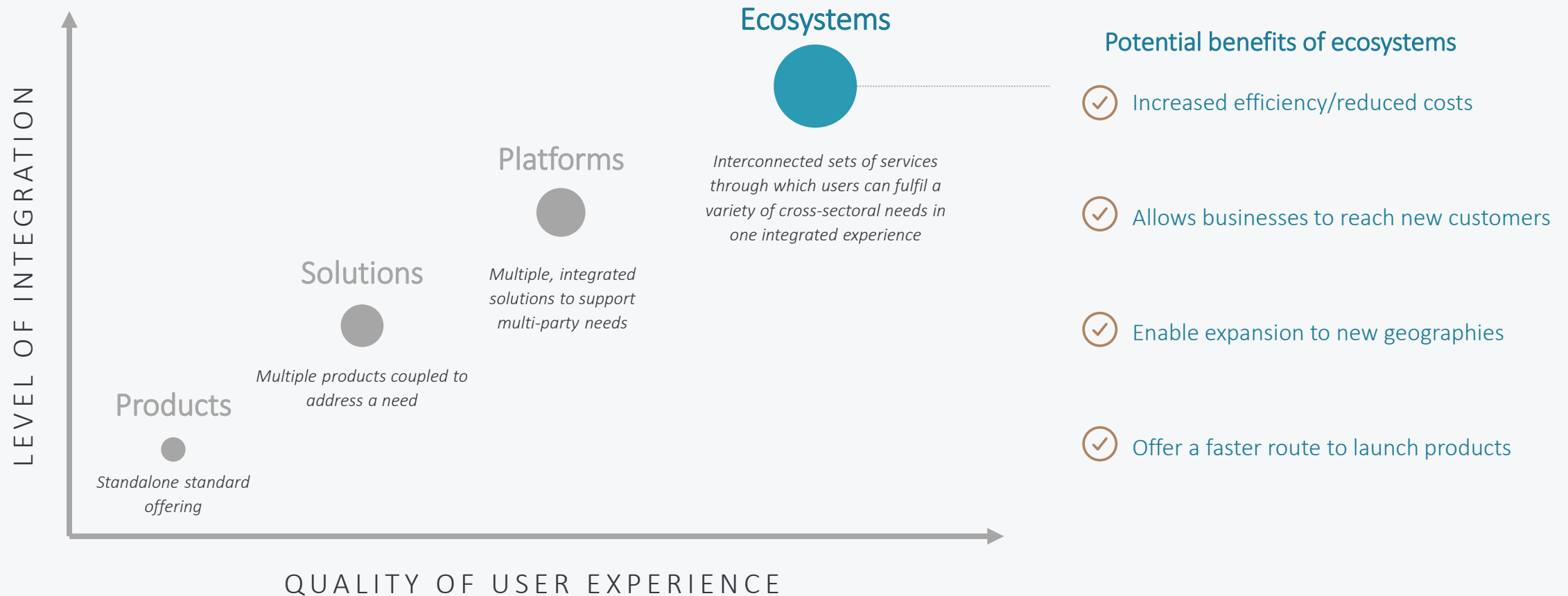
- While also popular for apparel and electronics, click and collect growth is being driven by grocery buyers. Interestingly, this upward trend is being driven by in-store pickup rather than curbside pickup.
- E-commerce grocery's share of total click-and-collect sales is increasing. By 2026, 63.4% of total click-and-collect sales will be from grocery e-commerce.

Click-and-Collect Sales US, 2022-2026

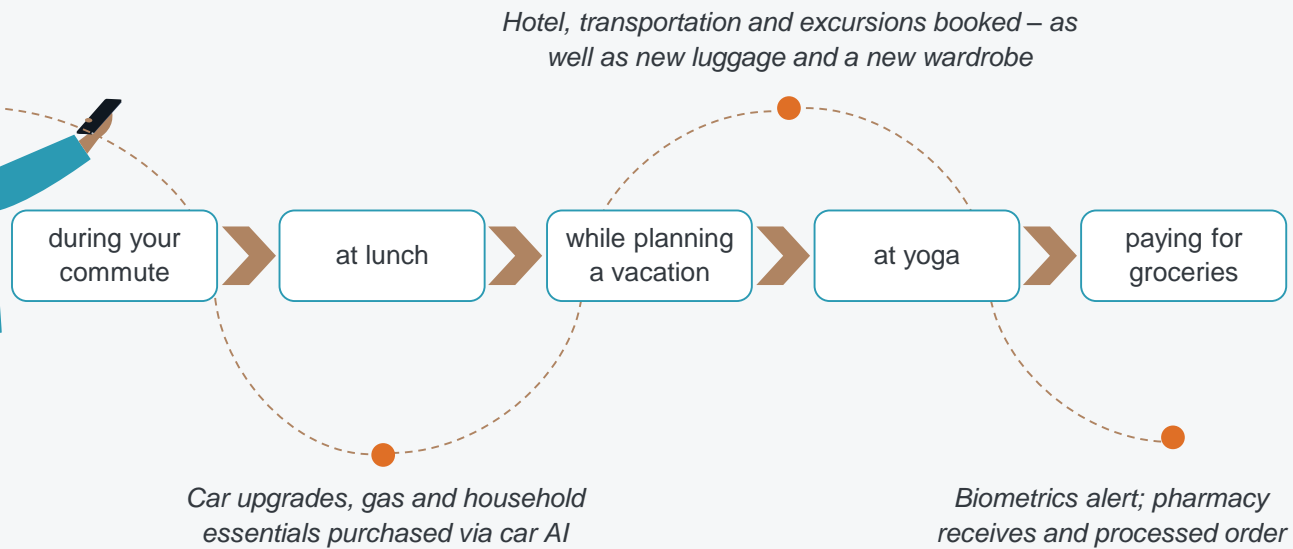
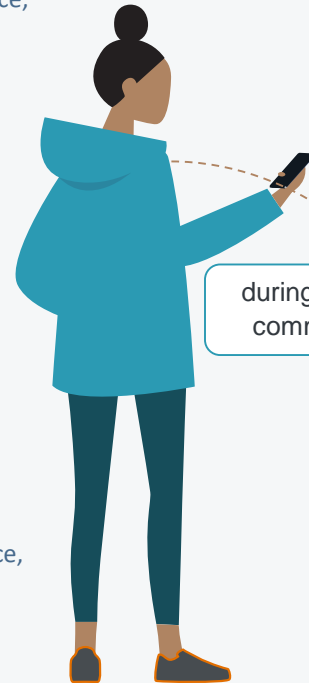
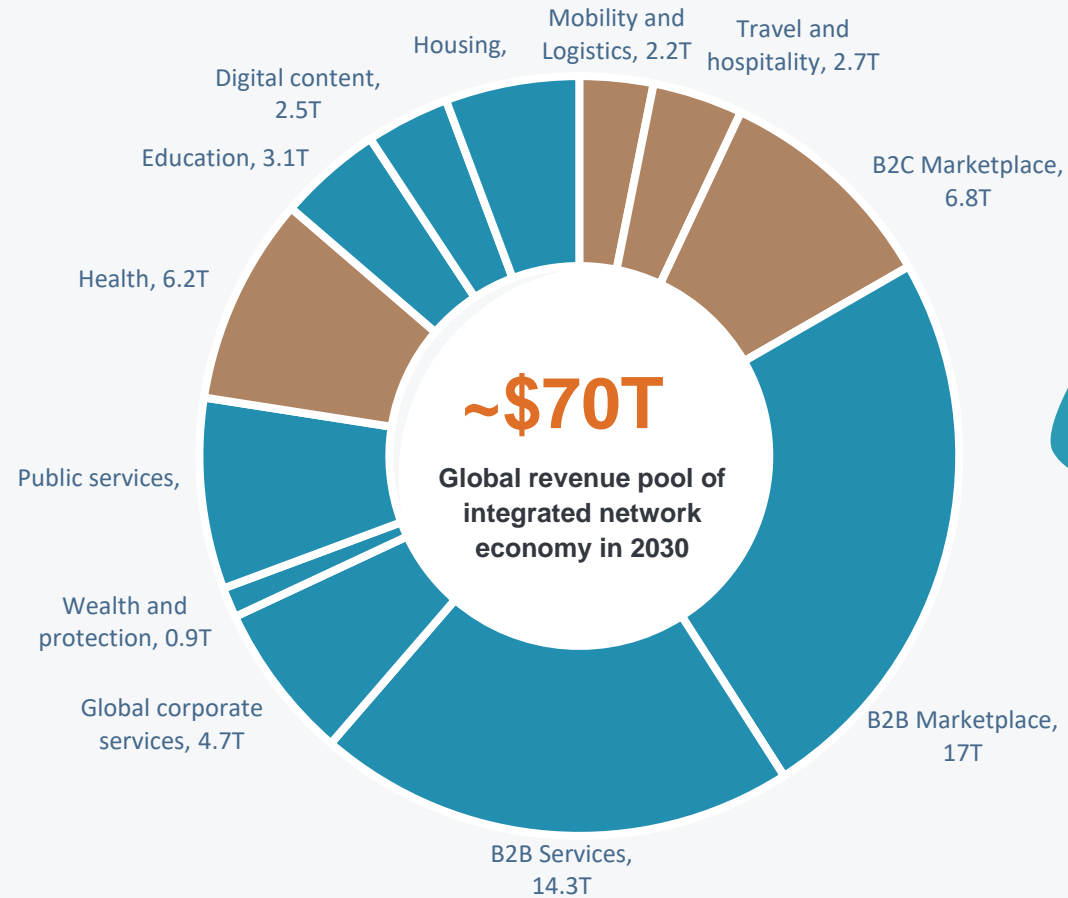


Click-and-collect is providing a way for brick-and-mortar merchants to compete with e-commerce-only retail giants.

Businesses are increasing their focus on ecosystem growth opportunities



Ecosystems blur industry lines to create better customer experiences



Ecosystem models enable integrated experiences powered by embedded financial services for a **life-centric experience**.

Source: McKinsey <https://www.mckinsey.com/capabilities/mckinsey-design/our-insights/a-design-led-approach-to-embracing-an-ecosystem-strategy>

The rapid growth of ecosystems

To help increase efficiency, reduce costs, attract new customers, expand into new geographies and launch solutions faster, Treasuries will need to shift their focus towards ecosystem models and their enablers.

Desire for integrated experiences

71%

Proportion of consumers that expect personalized interactions¹

Increasing use of APIs

28.8%

Expected annual growth in API Management market (2021 – 2028)²

Rapid growth in real-time payments

34.9%

Expected annual growth in real time market (2022 – 2030)³

Rise of marketplaces

66%

Proportion of B2C e-commerce coming from marketplaces in 2023⁴

Rapid growth of embedded finance

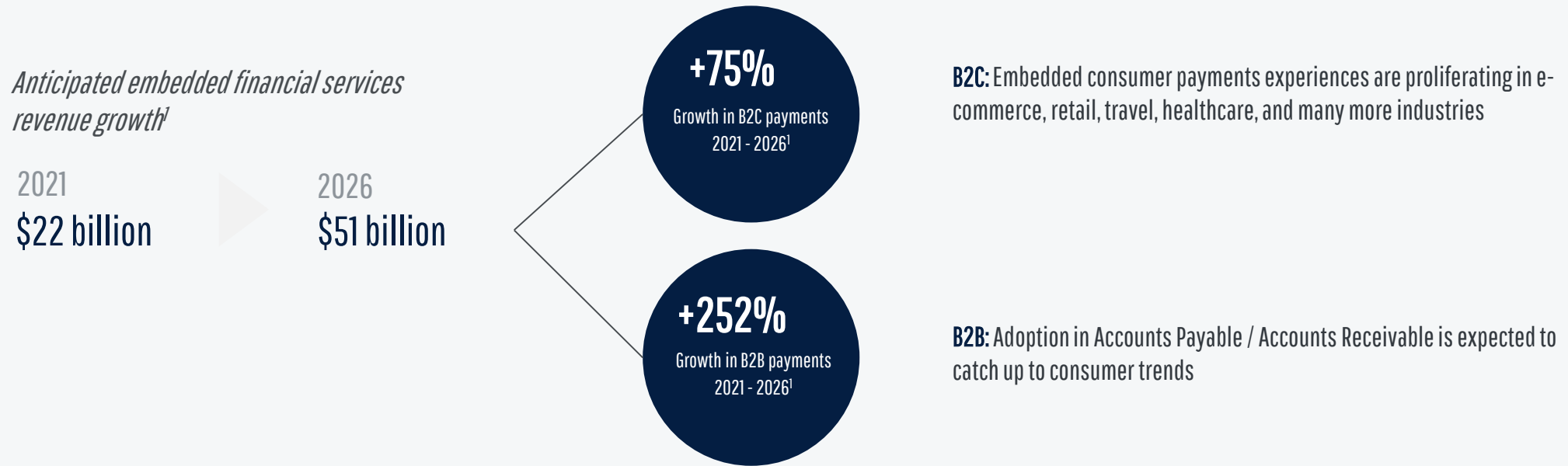
169.23 %

Expected annual transaction value growth from \$2.6T to \$7T by 2026⁵

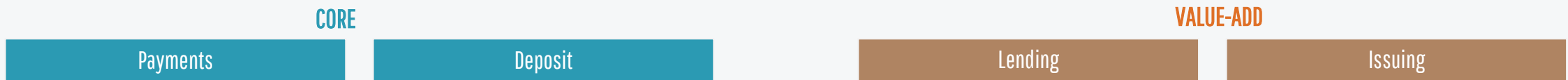
1. McKinsey Next in Personalization Report; 2021
2. Apidays State of the Market 2022; CAGR figure; 2022
3. Grand View Research; CAGR figure Source; 2022
4. Forrester Data Online Marketplace Tracker; 2022
5. Bain Consulting, figures for United States Embedded Finance Platform and Enablers; 2022

Ecosystem participation

Fast, frictionless and contextual banking services are a requirement



Key capabilities powering the acceleration²



Embedded finance drives marketplaces, super-apps, and direct platform and partner integrations, all of which **enable the evolution of ecosystems.**

J.P.Morgan

PAYMENTS

Key takeaways

- **Interest rate uncertainty and inflation** have caused businesses and consumers to think and act cautiously.
- Some **pandemic-driven shopping and payment experiences are becoming business-as-usual** for consumers as the recovery continues.
- **Remote and proximity mobile payments growth** will see continued expansion.
- Direct-to-consumer business models work best when **payments, finance, marketing product and product teams share priorities.**
- **Buy now, pay later is growing in popularity**, but regulatory scrutiny is growing
- **Click and collect helps brick-and-mortar merchants** even the playing field against e-commerce giants.
- E-commerce ecosystems can thrive and grow when **contextual banking and finance services are seamlessly integrated.**

We believe payments' new strategic importance is measured by their ability to help businesses monetize, grow and protect value efficiently and at scale.

J.P.Morgan

PAYMENTS

©2023 JPMorgan Chase & Co. Member FDIC. All rights reserved. The statements herein are confidential and proprietary and not intended to be legally binding. Not all products and services are available in all geographical areas. Visit jpmorgan.com/paymentsdisclosure for further disclosures and disclaimers related to this content.