THE CENTER OF COMMERCE

VOLUME 3  |  2018

the
innovators
QSR customer upgrades their fraud detection to enable a new mobile application launch

PROBLEM:
When this customer launched a new version of their mobile app, they saw fraud spikes that called for new tools.

SOLUTION:
The Advanced offering of Fraud Detect was implemented with a machine learning QSR-industry model, a rules engine, and Case Manager. First Data also implemented a capability allowing this customer to test the model at different scoring thresholds.

CASE STUDY:
QSR Company

decrease in fraud.

$200K saved after fees.

80% unlock,Merchant Innovation

Using machine learning to combat fraud. Shopping is about to get interesting.

INFORMATION & ANALYTICS SOLUTIONS
DATA AT THE SPEED OF COMMERCE

How well do you know your customers?
First Data® Analytics Solutions can help you make data-driven decisions based on customer spending habits to help you retain loyal customers and attract new business.
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Using machine learning to combat fraud. Shopping is about to get interesting.

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Not sure about you, but our dogs are always finding innovative new ways to get our attention. Through this issue of Connected we take a look at how partnerships, changing consumer landscapes, and fraud breakthroughs are fetching innovative ideas across industries — Leonardo da Vinci and Thomas Pugison would be so pleased. As you’re reading, keep an eye out for the pooches and pups hidden throughout the pages and count them up. Then, send your total to CONNECTED@firstdata.com by June 30, 2018. We’ll gather all the correct answers and randomly select five winners to receive a $200 Gyft® digital gift card. Sniff them all out!
In the 1960s, banks had a cool idea. They wanted to make it easy for their customers to shop and pay at any different retailers using a single card from a single line of credit. No more hassling with different charge cards from multiple retailers, or having to deal with cash or checks. From this important consumer demand birthed the modern network credit card industry.

Having an idea is just the first step in turning an unmet need into a valuable innovation. But, translating the idea into a workable, scalable and secure solution is where true innovation happens.

First Data has quietly delivered such innovative breakthroughs over and over again.

In the beginning, First Data built the infrastructure for interoperable-card payments that we still use today. That infrastructure allows financial institutions to issue and manage cards from any brand safely, securely and with great efficiency. First Data also built the capability for consumers to use those same cards to shop nearly anywhere, anytime, in any currency, using any network. Today, these systems host more than 1 billion cards and 6 million merchants around the world. Every second of every day, consumers rely upon First Data to conduct commerce, completing more than $2.5 trillion in transaction volume annually. First Data built a new way to get something important done – one of the most impactful, enduring and transformative innovations of the 20th Century.

Today, the pace has accelerated, demanding more from all involved. Darwinian survival can’t be assured, because the ecosystem is no longer static. Customers are disrupting the core ecosystem by making new, moment-to-moment choices. In response, financial institutions and businesses must hyper-accelerate their own innovation to meet these rapidly evolving demands.

Innovation is all about execution. No one company, no matter how big or agile, can innovate alone. Every innovator chooses their partners wisely. It takes a diverse network of forward-thinking leaders working together across companies, industries and regions to turn an idea into a value-creating innovation success.

In this issue of Connected magazine we look at The Innovators – those moving beyond ideas to execution, using partnerships, the speed of technology and a little spark of intuition to capture, create and define our tomorrows.

First Data is the right partner for these times. We stand at the intersection where financial institutions, businesses, merchants and consumers all connect to conduct commerce. Our role in the ecosystem is vital and our perspective and expertise allow us to help turn good ideas into powerful innovations.

Very simply: First Data executes. How can we help you succeed?

Barry McCarthy
First Data, EVP, Head of Network & Security Solutions
This is especially true at First Data, where every employee is considered an “Owner-Associate.” This not only gives them a sense of ownership and pride in their work, but it also helps them feel like they are contributing to the overall success of the company. As Anthony Marino, First Data’s VP of Operations & Controls, has said, “Just as ‘no man is an island,’ the success of a company does not stand on a single person.”

Barry McCarthy, First Data’s EVP of Digital Commerce, has been instrumental in driving the development of digital commerce solutions for the company. He focuses on strategic development, product management, and emerging mobile, marketing, and web-enabled technologies. His work has helped First Data to create innovative solutions that empower clients to drive more value to their businesses.

Rishi Chhabra, First Data’s SVP of Head of Information & Analytics, has a wealth of experience in the financial services industry, having served in senior roles with some of the world’s largest corporations. He is a thought leader in the human capital management space and serves as a director for ICICI Merchant Services, First Data’s joint venture in India. Rishi has been with First Data since 2013 and is responsible for building, commercializing, and launching the next era of Big Data and data-driven solutions powered by multi-channel commerce and customer engagement for merchants, retailers, and financial institutions.

Nigel Motyer, First Data’s EVP of Head of EMIA Acquiring, has a breadth of experience across the card payment business, having held a number of senior roles during his career. In 2017, Nigel was part of the management team that created the AIB Merchant Services joint venture, and he later became General Manager. Having previously been a member of the Board of Directors of AIB Merchant Services, Nigel currently sits on both the Board of Directors of ICICI Merchant Services, First Data’s joint venture in India, and the Board of First Data Europe. In February 2018, Nigel was elected to Visa’s Client Advisory Council.

Zooming in on another area of focus, Anthony Marino, First Data’s EVP of Global Head of Human Resources, has been a strong leader in the human capital management space. His work has helped First Data to create innovative solutions that empower clients to drive more value to their businesses. Anthony has written several articles on people and performance-related topics, and he is a frequent speaker at industry events.

Meagan Johnson, First Data’s VP of Digital Commerce, has had a successful career in the fintech industry, having spent over 20 years with First Data. She has supported hundreds of globally recognized brands and helps drive more value to your business.

David Ridonen, First Data’s Director of Universal Commerce Solution Consulting, has been with First Data for 10 years and is a seasoned payments veteran, having worked in a variety of roles from fraud, point of sale, issuing services, loyalty, and analytics. In his role, David is responsible for enabling our clients’ digital strategies.

David is responsible for building and managing relationships with key industry partners and has a wealth of experience in the fintech industry, having spent over 20 years with First Data. He has worked with a variety of clients including: Gyft and Gift Solutions, TeleCheck, STAR Network, TransAct, Kount, PayPal, and Stripe.

Peter O’Halloran, First Data’s VP of International e-commerce, is responsible for First Data’s e-commerce strategy and the commercialization of the e-commerce value proposition throughout EMEA, AME, and LATAM. This includes partnership formations, top-line e-commerce revenue growth through existing First Data sales channels, and increasing the addressable market through product innovation and client acquisition.

Seth Portman, First Data’s VP of Global Head of Strategy, has been with First Data since 2014 and is responsible for building and managing relationships with key industry partners. He has a wealth of experience in the fintech industry, having spent over 20 years with First Data. In his role, David is responsible for building and managing relationships with key industry partners and has a wealth of experience in the fintech industry, having spent over 20 years with First Data. He has worked with a variety of clients including: Gyft and Gift Solutions, TeleCheck, STAR Network, TransAct, Kount, PayPal, and Stripe.
Advances in Artificial Intelligence are ushering in a new era of personalized experiences and cross-platform convenience.

It’s not noisy or sudden. There’s no Steve Jobs pating a giant eagle in a black turndock holding up alien technology to cheering fans. But, if you listen closely, you can hear the opening salvo of revolution — one that’s killing the app and freeing up our mobile shopping experience. It’s being driven by advances in artificial intelligence and a new generation of virtual assistants that we can now access without our smartphones or tablets.

Amazon’s Alexa and Google Assistant were smarter than Siri and they were multifunctional, with better common-language capabilities. And, because they weren’t app-based, they were able to deliver personalized connected experiences across every device that a consumer owned. Google Assistant is accessible with Google Home smart speakers, on phones, computers, tablets, smart watches, smart displays, connected TVs, and in your car.1 Google saw the potential of multiplatform virtual assistants early in the game when it bought Nest® back in 2014. Today, a user can remotely set their thermostat, dim lights, or access security cameras from anywhere in the world.

Mobility is also extending into streaming services. “Now, you can be listening to Spotify® or Sirius XM® in your house over Amazon Echo, then have that same channel follow you as you walk to your car, and for the whole ride into work,” says Scott Mackay, First Data’s Vice President of Digital Commerce Solutions, who’s working to connect the clients on First Data’s long list of formidable partners.

Not only are they catching the customers where they are, but they’re also able to hyper-personalize the user experience. Through loyalty programs, customers can get a drink made exactly the way they like it at Starbucks®.

David Ridenour
First Data’s Director of Universal Commerce Solution Consulting

In turn, Amazon and Google have expanded their footprints into the physical world, giving them the ability to deliver goods with even more immediacy than before, and leveraging retail locations to deliver products and accept returns.

“We’re bringing together mobility solutions on any platform,” says Mackay. “For instance, Ford® says it’s no longer an automobile manufacturer, it’s a platform for consumers in motion. So, we’re here to help [them] with their payments connections. That means, you can now bring the virtual assistants with you, and pay at the pump with, say, Google Pay.”

Amazon might be taking mobility to its furthest extremes. They completed their acquisition of Ring®, the video doorbell service, just a few months after buying the Blink® home security unit. On the surface, those purchases could look like more moves to secure Amazon’s dominance within the smart home market. But, all those cameras also give Amazon access to consumer information. Down the road, this technology could allow Amazon (with your permission) to scan your home for needed technology could allow Amazon (with your permission) to scan your home for needed items, like cereal or toothpaste, and alert the clients on First Data’s long list of formidable partners.

Both Ridenour and Mackay are helping design personalized experiences through connected car platforms that learn from passive input, using artificial intelligence. “GM gives merchants access to its head units, which can track the car owner’s shopping habits at fuel stations, restaurants, and retailers,” Mackay says.

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In other words, these platforms, which help make everything more mobile, work in both directions. “Customers can now look at consumers holistically,” says David Ridenour, First Data’s Director of Universal Commerce Solution Consulting.

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The New Face of Fraud

Forget unkempt, pale figures in dimly lit rooms filled with computer screens. Today's fraudsters wear business suits. They work in real offices, keep regular hours, and openly market their products and services. “The reality is, it’s become big business,” explains EJ Jackson, SVP & GM, Security & Fraud Solutions at First Data®. “It’s moved away from this lone individual on their computer wearing a hoodie to organized groups who are collaborating, using cutting-edge technology and leveraging machine learning to defraud businesses as much as they can – and doing it out in the open.”

$8.45 BILLION
Current scale of annual fraud on the dark web

40% GROWTH
Current Compound Annual Growth Rate (CAGR) of the dark web

$189 BILLION
Total annual commerce on the dark web by 2020

The New Direction of Fraud Prevention

Jackson’s team is also working with solutions that render stolen data useless. FirstSense™ improves fraud alerting for financial institutions by mining the dark web and using machine learning to identify stolen data much earlier in the resale cycle. The goal is to warn institutions when their data is in the hands of criminals, so they can scrub accounts before they reach the dark web marketplace, lowering their value to fraud organizations. Jackson believes the breadth of data First Data works with is what ultimately enables his team to outsmart fraudsters. “Having access to such a large set of global data from credit cards, debit cards, and gift cards provides us with massive truths that machine learning can use to make better and better decisions, which helps us identify and prevent potential fraud better than ever.”
REWARDS REVOLUTION

The humble gift card has evolved from a quick and easy gift to a powerful form of branded currency.

"The gift space is really evolving because of the influence of connectedness," explains Dom Morea, SVP, Head of Gift Solutions at First Data®. "The ability of mobile to track, store, and move data enables us to deliver branded currency to consumers in a way that goes beyond standard gift-giving or gift-receiving.

Not only can digital gift cards be delivered more quickly to elicit an instant response, they are also more cost-effective. "When delivery is purely digital, merchants can move much more nimbly to set up promotions," says Morea. "If our clients want to run a promotion with branded artwork and animation and put it on a mobile device or the web, we can do it in weeks, rather than the months it would take to get up in a brick-and-mortar store."

"What's really driving the rewards revolution is the technology First Data® developed that connects gift card programs to loyalty programs and facilitates an iIS-app mobile experience where users can track their balances and manage their earned points," Morea points out. "Brands including Starbucks®, Chick-fil-A®, and PetSmart® have all integrated the technology into their apps. Basically, once a customer uploads their digital or 'Gift' card into the app and starts using it to make purchases, their spending is tracked, and points are automatically credited. Since the merchant can see and analyze individual customer data, they're able to use it to send personalized instant rewards, discounts, or promotions when they're most relevant."

For example, Chick-fil-A may send a promotion at the end of a work day to a customer who traditionally comes in for dinner, and Starbucks may send an instant reward whenever their system receives a geo-location alert that a frequent customer is near one of their locations.

To make it even easier for merchants to reward their customers, First Data’s technology delivers a seamless experience across all devices – so, if the consumer receives an offer at home on their tablet, it will automatically connect to their car dashboard and then directly to their smartphone when they hop out. "When they walk in to redeem the offer, it's right there in their hands."

"We've seen great traction with Starbucks," Morea says. "I think that experience is one that's beginning to take hold for other companies as well. It's becoming the norm to connect stored value or branded currency to loyalty and then engage with customers through push notifications or the mobile app."

And, reports show that merchants can thank customers for their loyalty. First Data’s 2017 Prepaid Consumer Insights Study, this group of 25-36 year olds account for the sharpest rise in gift card purchasing. Plus, they're less focused on purchasing gift cards as gifts and more focused on using them for self-rewards, especially when they receive them as gifts. "The experience of Millennials is, 'what's in it for me?,' branded currency seems to be one of the best answers."

"Ultimately, if merchants are not engaging in ways that help consumers feel appreciated and save time and money," said Morea, "they probably aren't going to catch the interest of Millennials or any other generation making up their customer base today or in the future."

Gift cards have always held a special place in our hearts. They make excellent stocking stuffers, they save us in last-minute gift situations, and they're the perfect addition to our brother's birthday card when we have no idea what to give him.

But gifting is only a small part of the evolving gift card story. They have become powerful tools for persuasion – able to build brand loyalty, drive down shopping cart abandonment, create incremental sales, and bring in new customers. Today, gift cards are the newest form of branded currency, able to influence purchasing decisions by equipping customers with incremental spending power.

In the world of "branded currency," coupons, gift cards, and loyalty points have become as valuable to merchants, and to consumers, as cash itself! While they've been around for years, the growth of digital and mobile hase given brands from big box retailers to financial institutions new opportunities to use them as rewards and incentives that can both gain and retain customers.

"When delivery is purely digital, merchants can move much more nimbly to set up promotions," says Morea. "If a bank has a remit of a nominal amount, rather than writing a check to the consumer – which is costly – they might send a branded card for $15. It's cost-efficient and fast, the bank gets a payable off their books, and everyone's happy because the consumer gets their money."

The next step, says Morea, is expanding the value of branded currency globally. "As the world becomes more digital and connected, the opportunity for brands to break into international markets is growing. And with scale that includes a footprint in 55 countries, First Data® can help them do it."

In the coming years, the company hopes to begin engaging more with global sales teams and merchant-acquiring businesses to help them derive the same benefits of branded currency that many U.S. companies are enjoying.

### In This Article:

- #GiftCards
- #Gyft
- #Millenials
- #Reward
- #Recognize

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Right now, in Silicon Valley and start-up incubators in New York, Amsterdam, Tokyo and a hundred of other cities around the globe, business leaders are cracking open corporate DNA and rearranging the code. This isn’t the laissez-faire evolution of MBA textbooks. This is human intervention - designed to change the consumer experience and conquer natural selection. This is innovation.

THE INNOVATORS

BUILDING THE NEW RETAIL FRONTIER
It’s become a game of one-upmanship on a global scale, with superpowers burning through limitless resources working to survive by becoming the first, the best, the biggest, and the strongest.

Along the way, the rulers of retail have evolved into tech giants offering goods and services far outside of their traditional verticals. And, they’re delivering them, along with a string of innovative user experiences that have zeroed in on the same objective – creating a fortress inside their customer’s homes.

What at first seemed like a natural extension of a business model is revealing itself as a tactical fistfight. Google jumped in first with Google Express, which allows customers to order nonperishable groceries from partner stores and receive them in just a few days. The innovation? You can do it from any connected device, just by saying, “Hey Google!”

Next, one of Google’s partners, Walmart®, decided it would be better to bring perishable and nonperishable groceries to your door in hours instead of days. And, it found an easy way to make it happen by tapping into the expanding market of Uber drivers, rather than creating a fleet of its own.

And then, there’s Amazon. It bought an entire enterprise, Whole Foods®, which already accepted the most online grocery orders. It linked those orders to the Alexa/Echo universe, and sped them to your house in under an hour, and shipping is free for Prime Members! Hint: half of Whole Foods’ shoppers were already Prime Members.

For good measure, it added Amazon Meal Kit, to give customers the option of having items bundled into ready-to-prepare dishes, putting hungry shoppers away from meal-kit delivery Innovator Blue Apron.

With the help of First Data®, Domino’s also built a Baby Registry, the natural successor to Domino’s Wedding Registry, that lets friends send pizza and menu-themed gifts to new parents and new/semi-new parents.

The last-mile delivery concept also transformed Millennial-favorite IKEA. The “assemble-it-yourself!” furniture maker bought the innovative start-up TaskRabbit, which allows users to submit requests for services they need, like dog-walking, house-sitting, and then wait for pre-screened taskers to bid on the job. Now, assembling IKEA furniture is a top TaskRabbit service.

This is what the consumers want. They want it today, within hours. They want it at their door, and they are willing to pay for it.

Chris Abele
Director | Corporate Strategy | First Data

With IKEA encroaching on its turf, Amazon created Amazon Home Services, to offer customers a new and simple way to buy and schedule professional services such as furniture assembly, house cleaning, and appliance repair directly on Amazon.com. It also allows Amazon to sell home improvement products like flooring, carpeting, and drywall to customers who aren’t comfortable with the do-it-yourself (DIY) concept.

For those who want to try DIY, Lowe’s partnered with Porch, an innovative 24/7 support service that connects customers with experts who help with home improvement projects. Customers can hire contractors directly through the site, request personal, guided instructions on installations and assemblies, or chat to get quick advice and ideas.

Lowe’s was also the first retailer to use virtual reality (VR) to run home improvement clinics. It offers the HoloRoom How To. Experience, providing on-demand DIY clinics to customers. They also jumped in the augmented reality (AR) game. Following in the footsteps of Amazon’s AR View, they launched the Envisioned app last October. Both use AR to generate sales by allowing customers to digitally place a piece of furniture inside their home to see how it looks before purchasing it. “In the last year, we’ve seen AR evolve to be much more than a way to chase virtual monsters in Pokemon Go,” says Seth Perlman. As First Data’s Global Head of Strategy, he and his team keep an eye on new technologies that are reshaping commerce. “It could prove to be a powerful tool to remove uncertainty and doubt about a potential purchase. Especially for categories such as apparel and home goods, where it can be hard to make a buying decision based only on a two-dimensional thumbnail image.”

Technological advancements are also impacting the way people give gifts. What started as simple paper gift certificates has evolved into instant and engaging digital experiences. With help from First Data®, Walmart® is using unique app technology to offer redeemable eGift cards like Basic Blue, which once purchased can be reloaded not only by the owner, but also by friends and family as a “gift” for new occasions.

An influx of resources, money and manpower is energizing the creation of new, innovative technologies at a pace we haven’t seen since the Space Age and Cold War arms race of the 1960s.
And, Walmart Pay isn’t just a mobile wallet. It also stores receipts and purchase histories. Users can also reload their own cards for easy checkout at the store.

“In addition to last-mile delivery and service, another trend shaping the evolution of retail right now is consumer brands going directly to market,” says Abele. “Big brands like Tide® are selling over their own websites and making deals to sell to consumers on Amazon.”

After striking a direct-to-consumer deal last summer, Nike® became a top-selling brand on Amazon. “We are looking to improve the Nike consumer experience on Amazon by elevating the way the brand is presented and increasing the quality of product storytelling,” Nike’s CEO Mark Parker told investors during a conference call.

Parker says Nike® also plans to begin selling on Instagram, “a platform the company already dominates in terms of followers. Nike’s tone-perfect use of emotive and aspirational imagery captures the spirit of Instagram, generating loyalty and brand recognition.” It will likely use Instagram’s Shopping-Tags feature to turn those followers into buyers, allowing Instagram users to simply click on Nike’s posts to get information and links to the product.

Social media and mobile-focused marketing are keys to selling direct-to-consumer products. Innovative user experiences draw customers in and keep them satisfied. Take, for example, Gatorade’s GX Platform, which uses a patch on athletes’ skin to monitor sweat output and electrolyte loss. It uses the data to recommend a personalized formula for Gatorade's "fuel bottle," which, in turn, records how much Gatorade the player has taken in, helping them stay hydrated.

In some Nordstrom stores, customers can go to a special Lancôme counter where their skin tone is analyzed with a technology called Le Teint Particulier. It precisely matches base colors, which are then mixed on the spot from thousands of pigments to create the perfect makeup foundation shade for each customer.

“The next retail frontier,” says Perlman, “will be the delivery of a consistent, personalized experience to every consumer regardless of where they are or what device they’re holding.” He says that First Data® is working with retailers of all sizes to provide the payments capabilities and robust analytics they need for the next era of commerce.

Think about it: the technologies that emerged during the Space Age are still with us, affecting how we live, work, and interact with our world. This new explosion of technology delivering commerce innovations that are changing everything about how we shop and pay, will undoubtedly have a long-lasting effect on retail sales and the consumer experience.

In This Article:
#ThinkFast
#DriveChange
#Collaborate
#InvestInLearning
#Strategy

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The world of eCommerce lost $60 billion in fraud in 2017.1 And beneath this massive figure there’s a world of additional pains.

Fraud results in:

» Losing money to chargebacks and spending time disputing them.
» Declining legitimate customers due to poor fraud controls.
» Losing stolen goods and the money spent on shipping.
» Bottlenecking order fulfillment with manual reviews.
» The threat of being labeled a “high risk” merchant.

While fraud teams focus on fighting waves of new fraud, innovation teams on the other side of the organization are focused on creating new revenue streams, and keeping up with changing customer expectations.

As the decade nears its close, merchants are trying to solve for risk and business opportunity at the same time, and they’re building bridges across their organizations to have big conversations. In this ebook, we’ll try to move the conversation forward.

Read on to discover:

» The most pressing trends in business and fraud that are shaping the future of retail.
» Success stories of customers who have innovated their fraud detection systems with Fraud Detect®, a comprehensive fraud detection solution utilizing a machine learning platform.
» Actions merchants can take now to be proactive in a changing world.

Chapter 01
MERCHANTS ARE EVOLVING THEIR BUSINESS MODELS

Shopping is about to get interesting. If merchants have learned one thing in the past few years, it is customers are clamoring for continuous innovation.

THERE’S SHOPPING ONLINE.

51% of surveyed shoppers last year told Deloitte that they planned to do more holiday shopping online than in stores.2

THERE’S BUYING WITH THEIR PHONES.

$2.6 billion

The biggest shopping day last year was not Black Friday, but Cyber Monday — and a third of the $6.6 billion consumers spent that day was via mobile phones.3

THERE’S USING NEW PAYMENT METHODS.

$500 billion

The volume of payments via wearables is expected to exceed $500 billion by 2020.4

THERE’S LEANING ON VIRTUAL SHOPPING ASSISTANTS.

The North Face spent one year training the AI algorithm behind its “Expert Personal Shopper” so it could make recommendations about clothing for consumers.5

AND THEY’RE BUYING THINGS WITH ONE CLICK.

Now that Amazon’s 20-year patent on 1-click payments has expired, merchants are looking for ways to capitalize on fast payments. Shopify Pay found that increasing checkout speeds by 40% led to an 18% higher conversion rate for returning shoppers.6
THE LATEST INNOVATIONS IN COMMERCE ARE EXCITING FOR CUSTOMERS, BUT THEY ALSO BRING UNIQUE AND NEW CHALLENGES WHEN IT COMES TO FIGHTING FRAUD.

Email selling
Twenty years after Amazon patented 1-click orders, and two years after social media companies like Pinterest introduced instant “buy” buttons, merchants are looking for the next trend in instant payments.

For example, the startup Rebel is trying to turn email into a merchant-owned channel by enabling customers to make purchases from inside their emails, rather than having to click through to a web browser. Making it easier for customers to complete purchases can create a great customer experience and increase revenue.

Voice-based shopping
Thanks to voice selling, Amazon’s Alexa could create $10 billion in revenue by 2020. And now that Target and Walmart have partnered with Google to allow voice shopping through Google Assistant, voice computing has become an important new revenue platform – but only for a select few of the most giant merchants.

Small and mid-sized merchants might be shut out of the voice platform for now, but they can optimize their SEO for voice so they show up on searches over voice assistants.

Cross-channel shopping
“Omnichannel” has gone from a differentiator to a given in just a couple years. Merchants are searching for ways to integrate all their channels to provide seamless movement between them. According to Google, 65% of people shopping online will begin a purchase with one device but complete it within another.

Merchants aren’t just integrating digital channels, but physical channels too. For example, Commerce newcomers like Bonobos and MM. LaFleur are expanding their online presence into showrooms, so users can use physical stores as part of their buying journeys.

Wallets
In-store mobile payment volume is anticipated to grow from $75 billion in 2016 to $503 billion in 2020. Mobile wallets accounted for almost a third of Starbucks transactions last year. Wallets can improve the merchant-customer relationship by providing an easier way to pay and a new avenue for personalized promotions. For example, Starbucks “cracked the code” of wallets by offering irresistible enticements through its mobile app, like the capability of ordering coffee ahead of time to skip the line in the store.

IoT is here to stay
The Internet of Things has gone from a buzzword to a Commerce reality. For example, Brita Water is connected to Amazon’s Dash Button and orders new filters automatically when they’re needed. And HP might be resuscitating its lagging printer business in part thanks to Instant Ink, which monitors printer ink levels and sends customers new cartridges before they run out.
Fraudsters are using advanced technology.

Perhaps the most important tool that fraudsters leverage is adaptation. The signature characteristic of today’s financial crime is that it’s always evolving. Here’s a look at the most pressing fraud types and techniques, many of which didn’t even exist a decade ago.

**FRAUD TYPES**

**Triangulation fraud**
Here’s how it works: a fraudster sells legitimate products over an auction account, like eBay, and a customer buys the product. The fraudster receives the money, then orders the same item from a legitimate retailer, pays for it with a stolen card, and ships the item to the buyer. The fraudster gets the money, the customer gets the product, and the retailer sees a normal-looking order. It’s only when the chargeback comes a few months later from the victim of the stolen credit card that the retailer discovers the scam.

**Sleeper fraud**
This is a kind of first-party fraud, when criminals open accounts in bad faith using their own identities or creating fictitious ones. In sleeper fraud, criminals will try to simulate normal profiles for months or even years to fool fraud controls. They may even create fake social media accounts associated with these fictitious identities to increase the air of legitimacy. Then they’ll switch their behavior to fraud in an instant.

**Chargeback fraud**
Here a customer will intentionally request a chargeback on a legitimate purchase. The customer might say the item wasn’t delivered, the item isn’t as advertised, the item was returned without a refund being processed, or they don’t remember making the purchase. In friendly fraud, customers will make disputes like these, but because they genuinely are mistaken about the purchase, or possibly because someone in their family made the order without telling them.

**Reshipper fraud**
This criminal enterprise is run by an operator who recruits unwitting “mules” through work-at-home job scams. They’re promised thousands of dollars a month just to receive and reship packages. The operator sells access to his mules to card thieves, who use stolen card information to purchase products from merchants, ship them to the mule’s address, and have them reshipped. The card thieves sell the goods on the black market, and the operator receives a cut.

**Address malformation fraud**
When a fraud system detects and blocks a fraudulent address, fraudsters will outsmart the fraud controls with a “malformed address.” They’ll write the address in such a way that the system can’t detect (e.g. “ROA” instead of “ROAD”), but in a way that the human delivering the package will still be able to recognize.

**Prefixed phone pattern fraud**
Fraudsters will “spoof” local area codes in order to look legitimate. They’ll imitate local merchants and fool unwitting customers into giving their personal information. Fraudsters use this same technique to impersonate the IRS and scare people into betraying their own credentials over the phone.

**Synthetic ID fraud**
Identity thieves create new identities using a combination of real and fabricated information. For example, many will use the social security numbers of children to evade discovery. Fraudsters will also fabricate entirely fictitious information. They’ll nurture these identities to appear legitimate, for example, by creating fake social media accounts. And they’ll use these identities to steal lines of credit, open fake accounts, and steal goods.

**Bot attacks**
Fraudsters create customized bots, often with the help of “build your own bot” websites, that use programming scripts to choose products at merchants and try to buy them with a velocity that’s not humanly possible, using stolen credit card information. Feedzai has discovered bots that can add to carts five times faster than humans, and bots can be programmed to open fraudulent accounts as well. These bot attacks are concentrated on items that are on sale, have just launched, or are particularly easy to sell.

**Buy online pick up in store fraud**
Fraudsters will select this option at online checkout, and then call the merchant asking to have it shipped to them after all. This is a way for fraudsters to bypass fraud screens, because merchants consider in-store pickup orders less risky. Fraudsters also like committing this kind of cross-channel fraud because they count on merchants keeping separate, stoked systems for internal and online purchases. For example, an in-store employee may not see that a customer bought 20 of the same item with 20 different identities.

**Offline fraud**
How can it be possible to see a charge you don’t recognize when the card was in your possession the whole time? Fraudsters can easily buy a small device that clones your card in a moment. They’ll clone your card into a copy that looks just like the real thing, and use it at points of sale to steal from your line of credit or your debit account.

**Expiration date fraud**
Consumers might not notice if the expiration date on a charge is different than the item they purchased. In order to make a sale with an expired card, the fraudster may simply print out a new expiration date.

**Fraudsters伪造**
Fraudsters are using advanced technology and leveraging the complexity of the payments ecosystem itself.

**THE NEW ECOSYSTEM OF FRAUD**

**Hard to detect**

- Triangulation fraud
- Address Malformation fraud
- Bot attacks
- Reshipper fraud
- Offline fraud

**Simple to detect**

- Sleeper fraud
- Chargeback fraud
- Prefix phone pattern fraud
- Buy online pick up in store fraud

**Existing**

- Buy online pick up in store fraud
- Triangulation fraud
- Address Malformation fraud
- Bot attacks
- Reshipper fraud
- Offline fraud

**Emerging**

- Sleeper fraud
- Chargeback fraud
- Prefix phone pattern fraud
- Buy online pick up in store fraud

**Unlocking Merchant Innovation Using Machine Learning For Fraud**
Key data breaches and credential dumps that are fueling all this fraud.

**Accounts Compromised**

**Yahoo! data breaches of 2013 and 2014**

1 BILLION

**Linkedin data breach of 2012**

100 MILLION

**Stolen credentials discovered by the security firm 4iQ in 2017**

1.4 BILLION

As cybercrime has evolved into big business, data breaches are increasing in both size and impact, disrupting organizations and lowering consumer confidence.

At Feedzai, the fraud analyst Joel Carvalhais analyzed the evolution of a fraud ring that attacked a large commerce client with account takeovers (ATO). ATO fraud is growing rapidly, costing $2.3 billion in 2016 alone. When Aite asked financial institutions to name their biggest fraud investment priority, their top answer was: retail ATO.

Feedzai’s analysis demonstrates this ring of ATO fraudsters evolved their tactics in three stages in order to evade detection.

**Stage 1**

Fraudsters used stolen credentials from the Yahoo! and LinkedIn data breaches to take over customers’ PayPal accounts to steal their card information. Then they used the same stolen credentials to log into the merchant. Fraudsters targeted a whitelist of “good customer” accounts that were auto-approved for orders. They ordered goods under these customers account and sent them to reshipper addresses.

**Stage 2**

Fraudsters tried to appear legitimate by changing the billing address field to match the shipping address of reshippers.

**Stage 3**

Fraudsters began to modify every major account field, like username and email address, in order to appear even more legitimate and outsmart the merchant’s rules.
Chapter 03
HOW THESE CUSTOMERS ARE FIGHTING FRAUD IN A CHANGED WORLD

Legacy technology simply can’t detect these newer forms of fraud.

Rules can be effective for stopping certain known behaviors, but rules can reach their limit when it comes to imagining adaptive human behavior.

A model-based approach can uncover interactive relationships in data that rules and humans alone will miss. And unlike rules, models can account for changing human tactics as fraud behavior evolves.

First Data has been deploying Fraud Detect, its machine learning-based fraud detection platform, with national merchants, and the results are in. By combining machine learning models with the existing rules, its customers are increasing fraud detection without adding any friction or alarm.

This adaptive fraud-fighting technology doesn’t just stop criminals in their tracks. It also enables cross-functional innovation efforts to explore new business opportunities without incurring new risks.

1 CASE STUDY:
Petroleum Company

Petroleum customer solves fraud crisis resulting from new mobile app

PROBLEM:
When a leading petroleum merchant launched a new mobile application, fraud rates spiked at 32%. This customer faced a critical choice: get fraud under control, or shut down the app and lose out on the new business opportunity.

SOLUTION:
First Data deployed its Premium offering of the Fraud Detect platform, with a customized machine learning algorithm and an advanced case manager. This product is purpose-built for high-touch, high-risk, immediate fulfillment sales.

Use case: Fraud Detect® mobile application

Use case: Fraud Detect® mobile application

Before:
Increased fraud via mobile app

32%

After:
Fraud rate after deploying Fraud Detect

<1%

Improvement in accurately detecting fraudulent transactions before they happen.

80%

150+

<0.5

SECOND

Number of fraud risk triggers. Fraud Detect analyzes to determine fraud risk score for every transaction.

Amount of time for Fraud Detect to deliver a score that enables a merchant to assess risk of fraud.

Data defined as the aggregate amount of chargebacks by original transaction date divided by total number of transactions for a specific month.
2 CASE STUDY: QSR Company
QSR customer upgrades their fraud detection to enable a new mobile application launch

PROBLEM:
When this customer launched a new version of their mobile app, they saw fraud spikes that called for new tools.

SOLUTION:
The Advanced offering of Fraud Detect was implemented with a machine learning QSR-industry model, a rules engine, and Case Manager. First Data also implemented a capability allowing this customer to test the model at different scoring thresholds.

RESULTS:
80% decrease in fraud.
$200K saved after fees.

3 CASE STUDY: QSR Company
A flood of fraud followed a new wallet launch

PROBLEM:
A QSR customer launched an auto-reload wallet. Gift card fraud poured in, along with an unusual volume of balance inquiries on stored value cards. Criminals were launching account takeovers, using stolen credentials to access stored value accounts and purchase items fraudulently.

SOLUTION:
A global model was delivered via a First Data gateway and auto-reload host.

RESULTS:
20,000 fraudulent transactions blocked in the first month alone.
The half life of innovation is decreasing.

Businesses and fraudsters alike are changing in a new digital economy. For merchants who wait to update their limited, existing technology, things are only going to get worse – not better.

Here are five actions we recommend taking to get ready for a new decade of both risk and opportunity.

1. Have big conversations across your organization
   Fraud teams and business teams have never been so linked. In large organizations, it can take a concerted effort to start having meaningful, ongoing conversations about the interconnected effects fraud and new business have on each other. For example, new fraud tools will need to be integrated seamlessly with new products, so they don’t add friction. And new business explorations will need to account for the explorations of new fraud tools. Merchants should start operationalizing these conversations as soon as they can, so they can transform their mode from reactive to proactive.

2. Have big conversations across fraud teams, too
   Even among fraud teams, silos can exist. For example, digital fraud teams and in-store fraud teams will sometimes work in isolation. Cross-channel fraudsters will quickly discover these organizational communication gaps and find ways to outsmart disjointed fraud teams.

3. Begin investing now in machine learning
   A hybrid approach to fraud detection, which combines machine learning models and rules, will identify many more fraudulent transactions for a given alarm rate. Merchants who continue to rely on rules alone will be lapped by today’s fraudsters.

Rules provide a static approach to dynamic human behavior, because their thresholds cannot change over time. For example, a human fraudster will quickly discover a velocity threshold for a rule that says, “Block when greater than four transactions in a 30 minute period.” Also, rules can be limited by yes-or-no threshold ranges, whereas models can recommend a broader range of actions, depending on the merchant’s tolerance for risk.

4. Think “fast”
   In this changing world, speed is king. Merchants need to prioritize speed as a goal in order to outpace the rapid progression of today’s fraudsters. For example, they need to consider how quickly their machine learning system can allow for the training and deployment of new models. And merchants should consider how quickly a vendor can be up and running so they begin stopping new fraud as soon as possible.

5. Make your people better
   The most fundamental benefit of machine learning is that it makes humans better. For example, while rules can only make a “yes or no” decision about transactions, machine learning models can provide a range of possible actions based on customized risk thresholds. This arms manual reviewers with all the information they need to make a decision, and leaves the power in their hands. Merchants should seek machine learning systems empowering their fraud teams to make informed decisions. Additionally, merchants should seek systems with easy-to-use human interfaces, like drag and drop dashboards and intuitive case managers.

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First Data’s Fraud Detect Solutions is a comprehensive, state-of-the-art fraud prevention solution with real-time fraud scoring and machine learning capabilities.

Conclusion

MEET FRAUD DETECT

First Data’s Fraud Detect Solutions is a comprehensive, state-of-the-art fraud prevention solution with real-time fraud scoring and machine learning capabilities.

Designed to reduce a merchant’s overall exposure to and cost of card-not-present payments fraud, Fraud Detect provides a highly differentiated value by leveraging leading-edge technology, the company’s information assets, and global distribution. Fraud Detect has been developed in partnership with Feedzai, an industry-leading AI technology and fraud science company specializing in real-time, machine-based learning to analyze big data and minimize risk in the financial industry.

Fraud Detect is designed as an offering to a merchant who is exposed to the growing fraud threats in eCommerce and card-not-present channels. The underlying objective is to create a centralized solution meeting the very high expectations of retailers for system accuracy, performance and flexibility.

The success of Fraud Detect is tied to three key business objectives:

» Reduce potentially fraudulent transactions, thereby reduce chargeback activity.
» Improve customer satisfaction by reducing false decline rates.
» Improve the efficiency of resources dedicated to managing at-risk transaction case reviews.

With Fraud Detect, merchants can successfully address issues surrounding fraudulent transactions, reducing the number of flagged orders requiring review and significantly lowering false positive rates. Fraud Detect adapts to newer fraud patterns with greater agility through a fully integrated modeling and run-time environment.

Unlike traditional rules-based solutions relying on hard-coded rules thresholds, the machine learning platform uses profiles to compute thresholds that are updated with each incoming transaction as it happens. The merchant is afforded access to a single fraud prevention solution, including both rules engine and machine learning, to make payment and operations safe across all channels.
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For one client, we reduced fraud from +30% to 1%.*

Whether it’s at the pump, in the car, via their phones, online, or in-store, your business needs solutions to secure your customers’ data and prevent fraud, while letting them pay the way they want, frictionlessly. Help protect your business from fraudsters in our fast-changing, mobile, social and digital world using real-time fraud scoring and machine learning with Fraud Detect®.

Think what we can do for you.

Learn more at FirstData.com/frauddetect

*Based on the results of client use case
ONE of the biggest users of this new big data is the healthcare industry. For hospitals struggling to contain costs, internal data from patient records, along with external data like weather forecasts and holidays, can be the key to predicting admission rates. This helps them make better operations decisions like predicting staffing needs, as Paris hospitals recently did with the help of machine learning.

In the United States, the National Cancer Institute takes it a step further. It is recommending a patient database that uses big data to predict outcomes of certain treatments. Rather than creating costly and time-consuming new trials for each procedure, researchers will simply back-reference the data for subjects. Much of the credit for the rise of what we call Big Healthcare goes to the adoption of Electronic Health Records, now used in 94% of American hospitals.

Now shifting gears, think about the way we access music. Streaming services like Pandora, Apple Music and Spotify have almost 200 million subscribers worldwide tuning in, spurting billions of neatly digitized data points. Throw in YouTube and other free services, and you have a huge set of data available to analyze which songs each customer segment likes, including details like how long each listener samples a track before moving on.

The real challenge is to see if data analysis can predict which songs will be hits or misses. But, that would take a long, complicated study by university researchers in someplace like Antwerp, where soulless algorithms would be applied and XY scatter charts studied to scientifically predict the position of dozens of songs on Billboard’s Dance Hit charts.

Under the Obama administration, NASA created the Big Data Challenge, opening the process up to public universities and research groups. Through this program, collective decisions can be made about keeping what’s important, and then on how best to access the data.

Remember, storing data is costly, as is transmitting it millions of miles across space. The first step is to decide what data to create before ever committing to storage and analyses.

NASA’s Big Data Challenge in many ways mirrors what First Data does for businesses. Every day, First Data hears from dozens of businesses who want to know how to make better sense of their data. They say, “Just please figure out how to use it.”

First Data’s Information and Analytics Solutions division.

Rishi Chhabra helps design and implement those analytic tools for First Data. And, he’s done his homework. “I personally visited with hundreds of merchants, just to understand what we could do to delight them. But their questions were more basic, more human. Just please tell me how much money I make each day. It’s very hard for them to figure these things out. So, we start there.”

Fodor says, having massive amounts of data with no plan is counterproductive. He recommends a measured approach, tailored to the individual business owner that answers their most basic needs.

“Just please think the all the data. How do you boil it down to concise, actionable information that helps make business decisions that will allow me to either grow revenue or cut costs?”

Fodor explains that you can grow data in many ways. For instance, by selling more stuff, retaining customers better, or by gaining new customers. That’s when you see the lightbulb come on. We tell them how to do each of those things. That’s what our analytic tools accomplish.

Chhabra’s applications are now used by thousands of merchants who turn to First Data’s Clover Insights tool to track their sales and learn how they compare with others in their same vertical, or in the same zip code, or in different parts of the country. He’s helped everyone from single-owner businesses to the largest employer in the world.

“Transactions don’t lie,” says Chhabra. “So, we help with forecasts and quarterly reports using real data based on actual purchases, not analysis from outside sources. I’m showing them all purchases in each category, not something extrapolated from a survey, or website clicks.”

In the end, big data is only as good as the tools that go with it. That’s true if you’re helping markets understand how long the fidget-spinner craze will last turns out, not very long), or where you should open a new franchise without cannibalizing your current customer base. As these tools evolve, we’ll continue to see the new big data used in big, new ways – even bigger than predicting the sickest beat in Belgium or the song of the summer in Spain.
GLOBAL CURRENCY
WHAT LANGUAGE DO YOU SPEAK?

Connect.
Expand.

WHAT LANGUAGE DO YOU SPEAK?

To learn more, visit FirstData.com
News organizations and women’s advocacy groups are looking ahead to the November election and predicting this could be “The Year of the Woman,” with a record number of women running for office at all levels of government. And they’re not just running – they’re winning – along with more people of color and more members of the LGBTQ community.

Since the 2017 Women’s March rippled around the globe, there’s been an increased public willingness to engage in discussions about women’s issues. But, perhaps lost in this new activism are two unchanging facts: women might be winning seats in government, but they’re not gaining seats in the boardroom. And, no matter what rung they are on the corporate ladder, women still get paid less than men for the same work.
The divisions are starkest in the tech industry, which has made headlines recently for being a “boys’ club” that shuns gender equality. Women occupied less than a quarter of computer-related jobs as of 2016. Those women who did have jobs were paid just 79% of men’s salaries. But many companies, including First Data, have been taking active steps to address the problem.

Anthony Marino, First Data’s Head of Human Resources, and his team are working to identify issues and close the gender pay gap for good. “I grew up with four older sisters and have two daughters as does our CEO Frank Bisignano, so for us, pay equity is a very personal and passionate issue,” he says.

“We’re setting course to be one of the first Fortune 500 companies to achieve pay equality for everyone,” says Marino, “and not because it’s a legislative reason as much as it’s just the right thing to do.”

Marino outlines four of the most effective strategies and programs First Data has in place to help build and nurture a culture of equality throughout the company.

1. **Analyze. Identify. Act.**

   For a company with over 24,000 employees, identifying pay inequalities is an ongoing process. Marino’s three-step plan involves analyzing employees with similar job titles and comparing their compensation, identifying legitimate gaps, and once confirmed, strategizing plans to close them.

2. **Build versus Buy**

   Recently, First Data shifted its hiring strategy. Rather than going outside the company to “buy” top talent, First Data now looks for existing employees with growth potential to “build” and promote from within. While this new “build” model appeals to all employees, it works especially well to help retain female workers, and it gives them a clear path to advance within the company. As Marino explains, First Data is finally in a place where it can spend time on growth and development of its own talent. “We’re at a point where our transformation required many new skills, so 70% of the time we would go to the external market for talent. I’d like to see us flip that. I’d like to grow and promote our own 70% of the time and make outside hires more the exception than the rule.”

3. **Employee Resource Groups (ERGs)**

   Almost five years ago, First Data established employee-led resource groups to create a sense of inclusion for all employees and to support diversity across the entire company. These groups encourage employees to connect with each other and with First Data clients who share common interests based on their gender, race, sexual orientation, disabilities, military service, and other factors. Groups gather to discuss industry issues and share stories about their personal lives.

   Today, 4,000 employees in 11 locations take part in ERGs. Providing a place where employees can find peers and safely voice their concerns and triumphs not only benefits members, but the whole organization.

4. **Gender-Neutral Newborn Leave Programs**

   With women comprising almost half of First Data’s employees, Marino says it was key for the company to have a strong maternity leave program. Last year, he saw an opportunity to make a cultural shift, and his idea was to launch a family leave program that would benefit everyone in the company. “We did our research and decided if we were going to do it, we’re going to do it right. Now, we have one of the best programs out there.”

   Marino points out that implementing initiatives has enabled First Data to increase employee satisfaction and cut attrition by half. The company has also been recognized for its efforts. First Data was included in Bloomberg’s 2018 Gender Equality Index, and designated as one of DiversityInc’s “25 Noteworthy Companies.” The company also earned a place on the Davis Thomas Foundation’s List of “Top 100 Best Adoption-Friendly Workplaces.”

   Mia Sheroff, Global Head of Marketing for First Data, has witnessed the company’s efforts first-hand. “The sign of a great company is when you don’t notice gender differences in roles and of computer-related jobs as of 2016. Those women who did have jobs were paid just 79% of men’s salaries. But many companies, including First Data, have been taking active steps to address the problem.

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For example, rice cakes, waiting rooms, stories about rocks – and certain things that you hope will be boring like visits to the dentist and travel by plane.

Along the boring/non-boring continuum, we want our banks to be steadfast and reliable.

So, really, we kind of want banks to be boring. They control our life savings, mortgages, and college loans – you know, important stuff. So, it’s hardly surprising that even during an explosion of Wall Street fintech investments, banks have stuck to what they’ve historically done best: store, protect, and loan money.

But now, new technologies and a changing consumer environment are forcing banks to act more like fintechs and vice versa. The result is a hazy fusion of the two, with new battle lines and even reluctant cooperation.

Early fintech pioneers like Quicken® and MS Money reimagined the banking experience for first adopters in the emerging digital age (Quicken first came out 34 years ago).1 They relied on partner banks to make their data available in proprietary formats that could then be manipulated into electronic spreadsheets.2 Over the years, these companies added services like electronic billing and online bill pay, but the banks themselves took a little longer.3

Now, changing consumer habits are making it clear to banks, either get with the times or lose business. “It’s come into sharp focus that banks need to become relevant to the consumer,” says Nigel Motyer, who heads up First Data’s Direct Acquiring Business in EMEA and sits on the Board of Directors at First Data Europe. “Why did PayPal® become so all-pervasive? Because it was the only method of payment that you had on eBay – and the consumer loved eBay.”

Consumers also love a new way to pay their friends and family, via person-to-person micropayments. Early versions allowed for easy payments via text messages. Now, person-to-person micropayments live on a platform nearly indistinguishable from social media, a no-go zone for banks.4

“Banks, traditionally, were very slow to adopt new technology. They were reluctant to jump into these new areas,” says Motyer. “I worked at a bank for many years, and there was a great nervousness about social media. But that’s all changing.” Consumers today choose banks for their service, without bias as to whether they’re traditional brick-and-mortar or all online.

I worked at a bank for many years, and there was a great nervousness about social media. But that’s all changing.

Nigel Motyer
Board of Directors | First Data Europe

So, banks have stepped up, have started to “shake off” the old stodgy perceptions and are beginning to innovate in response to consumer needs. Recently, major banks collaborated to create their own fintech API platform called Zelle®, which allows account holders to transfer cash instantly over apps or online.

Meanwhile, the fintech world is actively seizing ground once monopolized by banks. SoFi® is an online company that provides personal loans, mortgages, and student loan refinancing, mostly targeting Millennials.5 GreenSky® offers instant loans for home improvements,6 and Avant® offers loans to consumers with low credit scores.7

First Data®, a leading fintech and not a bank, is a player in the space as well, giving consumers more options for managing their money with Money Network®, their comprehensive electronic payment delivery solution. A consumer can receive their pay electronically, easily manage finances using the Money Network® Mobile App, and choose from multiple no-cost options for accessing wages.8

In Europe, there’s been a massive acceleration in fintechs vying for a share of traditional bank services due to new rules that have come into effect. This January, the Revised Payments Services Directive (PSD2) ushered in mandatory open Application Program Interface (API) protocols for banks, allowing third-party vendors to push or pull payments and data directly to and from customer accounts.9
Banks that embrace open banking will profit from a potential revenue uplift of 20 percent, whereas those failing to do so risk losing 30 percent to disruptive industry players by 2020.

Accenture

With PSD2, and an earlier effort in the U.K. called Open Banking, regulators are seeking to break the monopoly on financial services enjoyed by banks and even major credit card providers such as Mastercard and Visa—both of which are based in the U.S. Now, any vendor with at least one EU-registered entity can apply to become a Payment Initiation Service Provider (PISP).

“PISPs have the ability to initiate a payment on behalf of somebody else,” says Motyer. “And, if you register as such, you can open up your checkout payments to allow that person-to-person or peer-to-peer payment. So, you can see bigger merchants like Amazon becoming a PISP.”

Banks have been inundated with requests from all sorts of merchants wanting to register as PISPs and under strict rules governing their actions, they are obligated to provide the APIs. That’s raising serious concerns among traditional banks in regards to customer security and fraud. Have we mentioned First Data has a suite of best-in-class security and fraud tools for businesses of all sizes?—Yes, shameless plug.

“They’re quite nervous, as you’d suspect,” says Peter O’Halloran, First Data’s Vice President of International eCommerce. “They’ve got all of these companies coming in with requests, and now with their servers being interconnected, they’re on the lookout for anything nefarious.”

But despite the caution, banks are seeing great incentive to innovate. An Accenture study found “banks that embrace open banking will profit from a potential revenue uplift of 20 percent, whereas those failing to do so risk losing 30 percent to disruptive industry players by 2020.”

With that much at stake, the number of fintech newcomers is growing. A Caggegini fintech report identified $110 billion in new capital since 2009. And nearly 90% of the fintechs surveyed, say they want collaborative partnerships with traditional firms.

So, to reassert some control, and to avoid being disintermediated, most of Europe’s largest banks have created their own fintech incubators, from which they can home-grow and implement new technologies. Citibank, Barclays and ING have some of the most prolific. The EU is also working on a draft plan to create a regional fintech incubator with cybersecurity topping the list of its priorities.

Based on the Caggegini report, banks believe this hybrid is a winning strategy because customers vastly prefer traditional bank brands over startups. “They are all focused on the idea of—if we have to publish these APIs, what can we do to leverage our own APIs to provide value-added services to our customers?” says O’Halloran.

But, becoming more like fintechs won’t be easy, according to a new report by Accenture and the Partnership Fund of New York. Not only does it confirm that their methodical corporate culture clashes with the entrepreneurial speed of fintechs, but it also shows they are reluctant to toss out decades-old infrastructure and update their technology.

However, a separate study commissioned by First Data reveals a silver lining: greater challenges create greater opportunities. The report says the open API concept has applications that will lead to innovations in all areas of banking, and soon, third parties will begin to overlay their advancements in fraud protection, analytics, and even IoT.

If that’s true, bankers could soon be loosening their ties, unbolting that top button, and rockin’ some Aviators.

First Data's draft plan to create a regional fintech incubator with cybersecurity topping the list of its priorities.

The revised Payment Services Directive (PSD2) is a wake-up call for traditional financial institutions. Over the last 30 years, Europe’s banks have plodded along with the same centuries-old business model while financial technology companies (fintechs) have nipped at the crumbs left behind. The tile has turned, and now, these fintechs can match the banks’ massive financial resources. And, more importantly, they have access to the banks’ hard-earned customer lists. As a result, a study by PwC shows 82% of financial industry incumbents are now looking to form partnerships in order to maintain their dominance.

This is nothing new. When legacy industries are confronted with a rapidly changing technical landscape, forming partnerships makes absolute sense. Companies in the mature stages of their lifecycles have an established customer base, excellent name recognition, access to capital and a wide range of products. What they lack is startups’ ability to be nimble, innovative, lean and disruptive.

It’s a truism born out over decades of innovation, and one that repeats itself across a range of industries. And think back to the year 2000 when VCRs became (practically) obsolete. Cheap DVD players were flooding the market, and a startup called TiVo rolled out a new type of Digital Video Recorder (DVR). The disruptive innovation wasn’t the DVR itself, rather, it was TiVo’s user-interface software that created the look and feel of digital recording, providing the template that companies still emulate today.

Satellite programmer DirecTV understood the implications immediately, and rather than spending several years and millions of dollars to create its own device, it partnered with TiVo to provide DVRs to its 10 million subscribers. Simultaneously, the creators of TiVo recognized that they essentially had a firmware product. They understood that their limited manufacturing expertise couldn’t compete against established electronics makers, so TiVo’s founders quickly formed partnerships with established electronics firms Thomson and Samsung to capture more markets.

That partnership blueprint is alive and well in other industries. After redesigning car dashboards to accommodate costly navigation systems, automakers struggled to mirror the user interfaces of the new smartphones. When car buyers began rejecting the added costs of expensive and less intuitive in-car navigation systems in favor of mobile apps, major manufacturers partnered with Apple CarPlay and Android Auto to transport those apps into the head unit.

Bringing this cycle full circle, the same ecosystems are now forming around how we interact digitally for generations, and yet, Nike and other big brands are essentially brand marketers, not manufacturers. Not even Coca-Cola bottles its own soft drinks. These titans do what they do best, and then bring in strong partners to realize their final vision.

In This Article:

#ElectronicBanking
#MobilePayments
#P2P
#Innovate
#fintech

In This Article:

#TideHasTurned
#BrandMarketing
#PSD2
The scene is a classic.

The magical, larger-than-life wizard from “The Wizard of Oz,” is finally exposed by Toto. The tiny dog pulls back a curtain to reveal … a human being? A carnival showman who’s frantically pulling at levers, spinning dials and backing into a microphone, all to keep up the illusion of being “great and powerful.” Hopelessly, he bellows, “pay no attention to that man behind the curtain!”

His reasoning is simple. If Dorothy and her friends are jolted away from their user experience to contemplate how it’s all done, they’ll grow disenchanted – and all the magic will dissolve into simple mechanics.

Today, in the “real world” of commerce, merchants are seeking solutions that can deliver that same magic to customers.

One way to do it is by making the actual payment process frictionless – something that is completed securely in the background by using customer account information on file.

“Marketplaces and gig economy merchants want payments to disappear into the background, not be an additional feature,” says Nandan Sheth, Senior Vice President of Debit Solutions at First Data.

Ride-sharing companies, with the help of First Data, were some of the first to pioneer this type of frictionless commerce as a way to engage customers. Travelers simply summon a car with their app, accept the cost, and ride to their destination. When they get there, they hop out without stopping to pay the driver – no awkward moment searching for a few bucks to leave as the tip.

The drivers also love it, because they get paid immediately upon request. The app automatically charges the total fare to the passenger’s card, which is processed via First Data’s dynamic routing engine through the lowest-cost payment network.

At any point, the driver can instantly deposit their profits into their bank account via their debit card. The rideshare companies residual is also automatically calculated and retained: There’s no back-office processing, no timecards, and no employee checks to cut – just easy automatic payments.

Processing via the lowest-cost network is an added benefit itself. “Gig economy merchants love our highly differentiated marketplace solution, as it helps them optimize payments from the rider to the driver,” Sheth says. “When a rider’s payment comes through from any debit card, First Data’s dynamic routing engine determines the most cost-effective route and processes the payment in real-time. For drivers it means instant cash flow, so they can buy gas, food, or pay for repairs. It’s a seamless experience for the merchants, drivers, and riders. We make everything happen behind the curtain.”

We make everything happen behind the curtain.

Nandan Sheth
SVP | Debit Solutions | First Data

Today, countless other gig-economy companies like Rover, a dog-walking service; TaskRabbit, a personal concierge service; and Airbnb, a peer-to-peer home rental marketplace are using hidden payments as a competitive advantage.

“Brick-and-mortar merchants are also looking for ways to keep point-of-sale (POS) payments out of sight,” says Mark Schulze, Co-founder of Clover and Vice President of Business Development at First Data.

To deliver this type of experience, Clover has teamed up with Bypass Mobile which allows customers to pay for food and other concessions right from their seats at more than 300 sports and entertainment venues. Customers can then skip the checkout line and retrieve their food from a special pick up counter to cut down their time away from the action. And, Clover continues to innovate, with products like Clover Flex, a mobile POS which can be carried straight to stadium seats or restaurant tables without the need for customers to stand in lines, and Clover Go, a smartphone-compatible POS that can take any type of payment and wirelessly connects to desktop POS. “Merchants are rethinking how they do business,” Schulze says, “with these devices, they can check people out in the aisles.”

Next up on the horizon, says Schulze, will be technology that enables consumers to use smartphone facial-recognition apps to pay for merchandise and services in the store without having to hit a checkout lane. These innovations are already in trial runs, he says, pointing out that Google is testing facial-recognition payments in the Bay Area.

First Data is working hard behind the scenes to make all of these payment solutions a reality, pulling the levers, and spinning the dials to make the user experience – as Dorothy might say – magical.

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THE COMING CONSUMER STORM: LINKSTERS’ IMPACT ON RETAIL, COMMERCE, AND PAYMENTS

GEN-Z RISING

THE COMING CONSUMER STORM: LINKSTERS’ IMPACT ON RETAIL, COMMERCE, AND PAYMENTS
Generational marketing is not a new concept. Each time a new age group is identified, merchants and advertisers begin a frantic scramble to figure out what they want and how to connect with them. Before there were Millennials there was Gen X, and before that, there were the Baby Boomers – each group with a unique set of expectations, experiences, generational history, lifestyles, values, and demographics that influence their buying behaviors.

And now, just as marketers were beginning to feel they mastered marketing to Millennials, along came Generation Z (or Gen-Z), which includes anyone aged 2 to 19. Once Women’s Wear Daily proclaimed this group to be “the next big retail disruptor,” the frenzy began all over again. Then, the research group J. Walter Thompson Intelligence proclaimed them to be “Millennials on steroids.” No wonder retailers are freaking out.

But, according to generational expert David Stillman, that characterization is misleading and even offensive to members of Gen-Z, who are distinctly different from Millennials. Gen-Z’ers are aware of the negative stereotypes tossed around about their predecessors, and they’re working hard to blaze a different path. Retailers who treat them the same are bound for failure.

“It’s beneficial for companies to reach out to them today because they’re already making demands on household spending,” says Megan Johnson, a professional speaker who calls herself a generational humorist. Johnson chronicled the rise of Gen Z in her book, Generations, Inc.

The first generation in history that has grown up with the Internet, smartphones, apps and social media since birth, technology heavily influences how they approach each other and the marketplace. And she points out the Linksters, as she likes to call them, already control $602 billion in U.S. sales. “Some older Millennials remember using dial-up modems to get online, and Wi-Fi wasn’t available everywhere,” Johnson says. “Linksters though, have been linked in from day one.”

Linksters value authenticity above all else. Johnson says, “This generation wants to know, ‘how is this product like me?’” She explains they are resistant to buying something that has a heavy brand image. “They want clothes that look like what real teens are wearing, and images in advertising that look just like them.”

Rather than expensive designers brands, Linksters are more likely to buy Target’s Art Class line, which is designed for and marketed to Linksters. “The kids in the photos are wearing practical clothes – leggings and printed hoodies that are colorful and fun,” Johnson says. “And, the kids in the ads look like kids. They don’t look like 20-year-old modeling clothes for teens.”

Because they’ve never known an unconnected world, they automatically gravitate to social media and look to trusted influencers to help them form their opinions. “YouTube is the sweet spot for them, where they go to get information about brands,” says Johnson. “When companies latch on to social media influencers to sell products, Linksters are very suspicious. They’ll go to YouTube to find out if those influencers are being paid to sell the brand.”

Of course, Gen-Z’s notoriously flitting attention spans are often perceived negatively and blamed on their obsession with social media, but research has found differently.

“Physical stores are responding by becoming smaller, but also more profitable per square foot,” says Glenn Roder, who heads up Competitive Intelligence at First Data. “By using algorithms based on online purchases in the local area, stores can tailor their stock with only the products in the highest demand. Customers head directly to the store. Two-thirds of them say they frequent stores more if they’re able to check ahead of time.”

By recognizing this as a key differentiator, merchants can look for opportunities to tailor their Gen-Z marketing to tap into their passion to do good, and to right what’s wrong.

Like any other generation, they’re just navigating the world they live in. Merchants who embrace their need for authenticity, their dedication to social media and their social activism, will easily attract their attention and, as a result, capitalize on their market value.
Residents of the gigosphere face financial challenges much different from 9-to-5s.

Financial apps like First Data’s Money Network® are taking some of the guesswork out of the process. It offers a Piggy Bank feature to help people set aside a portion of their earnings every day to cover big-ticket items. First Data’s Innovation Lab is now in the field, actively collaborating with independent contractors to create additional new products and services that can better meet their needs.

One thing is certain. If Jerry, my “bobby-ha-assemble” was any example of the side hustlers’ hustle, it’s hard to believe the Gig Economy is really a slow death. And, yes, he even got that extra ten bucks for walking my dog. After all, he was already there.


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Financial Literacy in the Gig Economy

One sunny Saturday afternoon last fall, an author reached out to me, an author echoes from my front door. It was the two-knuckled knock of a 30-something-who’s done this hundred of times before. The door swing open, a scuffly-bearded dad lowered a bike helmet to his side and smiled, “Hey Jerry! Your from TaskRabbit! You get some furniture that needs assembling?”

Jerry is part of a growing throng of workers with side hustles in the Gig Economy. Estimates show a third of the U.S. workforce, and 162 million people in the U.S. and Europe combined perform independent work, including part-time “contractor” jobs for platform-businesses like TaskRabbit. Uber, Lyft, and Upwork. On this gig, Jerry will make $30 putting together a Swedish-inspired bookshelf, as I hurry off to catch a flight. “Need a little extra money,” he asks. “Just ten bucks since I’m already here.”

Some speculate that since Millennials crave new experiences, they’re naturally prone to hop from one job to the next. That idea lost traction in the recently-concluded Research Center study showed job-hopping is just as pervasive among all generations at a certain age. The actual reasons are much more complex. And, spanning everything from the difficult job market Millennials encountered when they entered the workforce, which forced them to become more comfortable with part-time work, to the explosion of the online platforms that make it easy, this presents a possible opportunity, to desire of Gen Y/Es to blaze their own path out of the mainstream.

Whatever the reason, either by choice or necessity, residents of the gig-o-sphere face financial challenges that are much different from 9-to-5s. They have no access to company benefits like 401(k) plans or subsidized health insurance and their income can fluctuate wildly as gig jobs pop in and then drop out just as quickly. In fact, new U.S. tax laws are making it harder for this group to collective bargain and be recognized as full-time employees. Some states are working to reverse this trend, but face headstrong resistance from gig employers.

Several proposals are pending to help independent workers. One idea is to tax gig earnings a small amount, maybe 5%, with the money going into a general account that would be portable from job to gig. But company fears gig the “portable earnings” plan would open up them more claims from workers wanting full benefits.

Meanwhile, financial apps are working to educate contractors on financial literacy. A recent study shows that more than half of side hustlers use the money every day to cover basic expenses, like food or housing. That makes fluctuations in earnings even more frightening, as workers worry there won’t be enough to meet ends meet.

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“Money Net

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First Data’s Money Network® helps gig workers save with Piggy Bank, a feature that tracks their daily earnings and puts aside an amount every day to help cover big-ticket items. First Data’s Innovation Lab is now in the field, actively collaborating with independent contractors to create additional new products and services that can better meet their needs.

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