



SUMMER | 2018

SpendTalk

The latest payments, eCommerce,
fraud and security trends from
Bank of America Merchant Services





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Welcome to SpendTalk

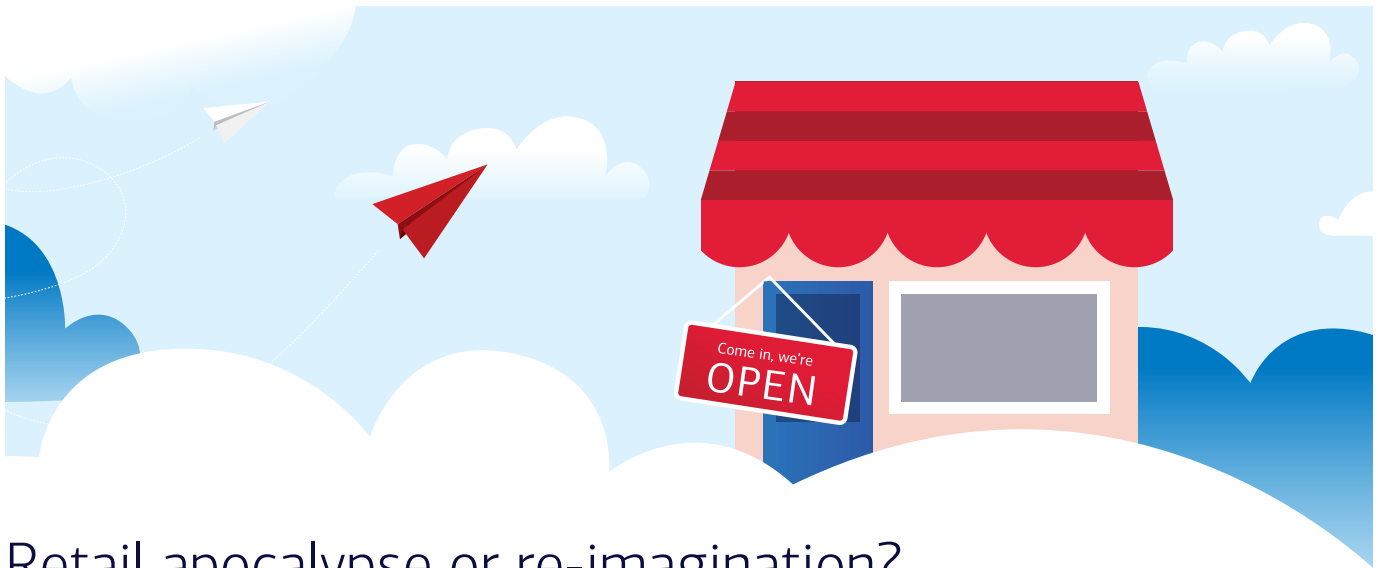
from Bank of America Merchant Services

At Bank of America Merchant Services, we're often asked for our perspective on the trends that are reshaping global commerce and, specifically, payments. Throughout the year, in face-to-face meetings, publications and industry forums, we eagerly offer up our proprietary analyses and insights to help businesses make sense of rapidly evolving changes in consumer behavior.

SpendTalk is a seasonal publication from Bank of America Merchant Services that shares our take on a number of these trends. In this edition, we dive into the topic of how brick-and-mortar retail is adapting to meet evolving customer expectations. This includes a look at the reasons more people will be paying with their phone and how to prepare. We also share the four most-important takeaways from an online customer personalization webinar we recently hosted.

Consider SpendTalk a springboard for discussion with your Bank of America Merchant Services business consultant. It's Bank of America Merchant Services' privilege to serve you and help your business stay on top of the latest payments, eCommerce, fraud and security trends. Let's keep the conversation going.





Retail apocalypse or re-imagination?

How brick-and-mortar retail is adapting to meet evolving customer expectations

To paraphrase Mark Twain, “the reports of retail’s death have been greatly exaggerated.” As news of the impending retail apocalypse continues to make headlines, sales numbers tell a different story.

Retail and restaurant merchants that rely on Bank of America Merchant Services for payments processing witnessed sales growth of 3.2 percent from January through May 2018 compared to the same period the previous year.¹ This tracks U.S. Census Bureau findings showing that total offline retail sales grew approximately 2.5 percent in 2017. This begs the question: Is brick-and-mortar retail really dying?

“It’s inaccurate to frame recent store closures and bankruptcies as a departure from in-store shopping,” says Michael Roberts, chief marketing and digital strategy officer at Bank of America Merchant Services. “When you look at the trends, you see customers rewarding retailers who invest in engaging experiences.”

Retail is still growing

It’s easy to assume the worst. In the U.S., retail businesses accounted for almost

15 percent of bankruptcies in 2017² and nearly 7,000 stores are slated to close in the next three years.³

The recent closures are partly in response to rampant overdevelopment, particularly with the same types of stores, as well as businesses that resisted the call to adapt as consumer expectations changed.

According to research by Cowen and Company, the number of malls in the U.S. grew more than twice as fast as the population between 1970 and 2015, and the U.S. has 40 percent more shopping space per capita than Canada, five times more than the U.K., and 10 times more than Germany.⁴

Despite the attention-grabbing figures, retail is growing, with around 3,500 expected net store openings in the U.S. in 2018.⁵ Categories witnessing expansion include dollar, convenience, beauty and auto parts stores.⁶

Spending habits and consumer expectations are evolving

Consumers are shifting more of their spending from goods to services and

experiences. From 2007 to 2017 there was a \$309 billion shift in consumer spending from goods to services.⁷ While a large percentage of this shift is attributed to rising healthcare costs, 21 percent went to experiences like travel, dining out and other recreational activities.⁷

And it’s no secret that eCommerce has altered customer expectations in terms of convenience, price and service. Amazon and other online retailers continue to raise the bar on their customer experience. They’ve added features like personalized product recommendations, fast and free shipping, and robust loyalty programs. Amazon Prime membership alone rose from an estimated 46 million in July 2016 to 54 million in July 2017.⁸

“The bottom line is that customers have become more discerning about how they spend their disposable income,” says Roberts, “so they’re spending it where it’s most convenient, affordable and enjoyable for them.”

Traditional brick-and-mortar stores are under great pressure to innovate to

90%

of retail spending is done in physical stores.¹¹

meet these new customer habits and expectations, as well as ensure a consistent and pleasing customer experience across all channels. According to consumers, the brick-and-mortar shopping experience is the one that often lets them down. When surveyed, 72 percent of respondents said the physical shopping experience is dull, 64 percent said it's hard to shop at brick-and-mortar locations and 60 percent said the service is poor.⁹

concept stores that provide personal stylists, tailoring services and manicure appointments, while stocking zero inventory. All product purchases are made online.

Innovation is also going the opposite direction where major eCommerce players are opening brick-and-mortar outposts to better engage with customers, test new technologies — like Amazon Go's checkout-free model — and to raise their profiles in the physical world.

70%

of millennials and **77% of GEN Z** prefer stores.¹¹

The future of brick-and-mortar

Make no mistake, the physical store remains an extremely valuable asset. More than 90 percent of all retail spending takes place in a physical store⁹, and consumers still prefer an in-person shopping experience over online for a wide range of product categories.⁵

Retailers that are thriving have embraced enhancing the customer experience.

Take Nordstrom, for instance. The company launched new, smaller-footprint, alternative-

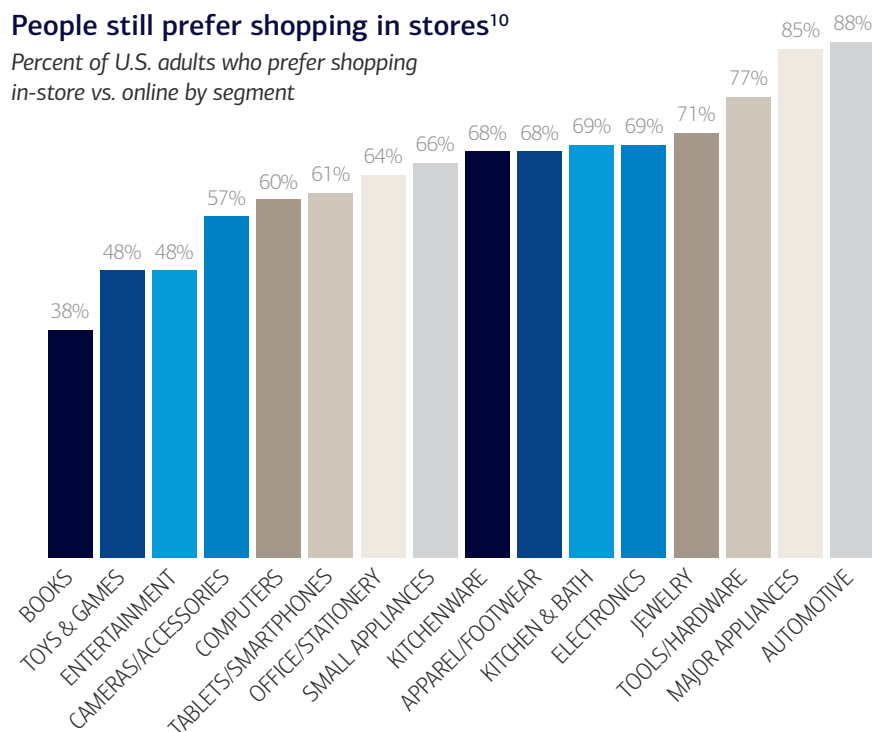
"The key is realizing what your customers want, when they want it, and how to help them purchase it" says Roberts. "All those capabilities rely heavily on omni-channel tactics that bridge the gap between online and in-store."

Based on industry research and predictions, the future retail store will have three key characteristics. It's smaller, it's high-tech and it's high-touch, providing customers personalized shopping experiences that meet their expectations.

FIGURE 1

People still prefer shopping in stores¹⁰

Percent of U.S. adults who prefer shopping in-store vs. online by segment



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Are you delivering a high-tech and high-touch customer experience across shopping channels?



The reasons more people will be paying with their phone — and how to prepare

While the adoption of mobile wallets in the U.S. has been lower than predicted,¹² recent trends in the mobile payment space, emerging technologies and shifting customer preferences indicate mobile payments are here to stay.

Some of the top reasons cited by U.S. consumers for not using mobile wallets are that they are not familiar with how they work and they are concerned about security.¹³ However, many consumers have shifted to using a mobile device to bank and to pay bills. By 2016, 47 percent of Americans reported using their mobile phones for payment processing.¹⁴ As consumers grow more comfortable with using a mobile device to meet their financial services needs, it is likely that mobile wallet usage will grow as well.

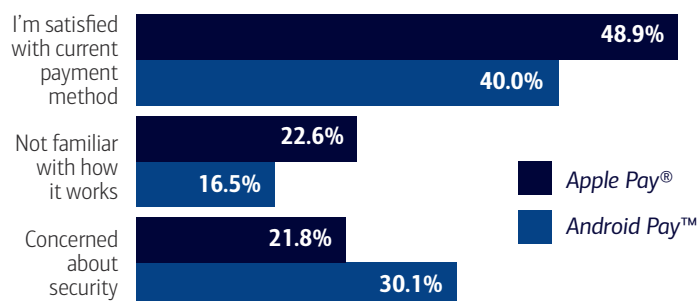
Emerging technology is also helping to make mobile payments more secure. New biometric security features, like facial recognition and fingerprint ID, are becoming standard on many mobile devices and can help alleviate some of the apprehension around using a mobile wallet.

Today, more than ever, consumers are focused on convenience and speed. An increasing number of shoppers want to store all their payment information in one central, secure place and avoid the burden of carrying a physical wallet. According to a survey from CodeBroker, 43 percent of the U.S. consumers they surveyed ranked carrying a physical card as their biggest pain point with loyalty programs.¹⁵ As consumers continue to become more technology-focused, the population of mobile wallet users could take off.

If your business is not able to accept mobile wallet transactions, or if you haven't considered including mobile payments in your app, you may risk losing customers. Accepting a variety of payment types is one way to keep up with or stay ahead of your competition. After all, if a customer comes into your business and isn't able to check out with their preferred payment method, you may lose the sale.

Bank of America Merchant Services has solutions to help your business accept mobile wallet payments if you don't already do so. We've also embedded merchant-branded payments capabilities in merchant mobile apps for clients in the quick service restaurant, full service restaurant and petroleum industries. As a trusted provider of global payment, eCommerce and security solutions, we're ready to help you optimize your customer's purchase journey.

Top reasons US consumers haven't used wallets



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

4 key observations from our online customer personalization webinar

Delivering a personalized and relevant online shopping experience on your site is critical for your business to remain competitive and grow customer loyalty. Bank of America Merchant Services recently hosted a webinar with GroupBy, an industry expert in site search technology, to help businesses continue to personalize the online customer experience, deepen loyalty and ultimately increase cart conversion. Here are four key takeaways:

1. Focus on relevancy first

In pursuit of delivering a more personalized online shopping experience, most companies start by expanding the range of data they collect about their customers' behavior and interests. However, this alone does not lead to a better customer experience. A good place to start is fine-tuning the search results your eCommerce platform will return in response to your customers' searches.

For instance, if a customer is searching for black shorts on your site or app but gets results for short black dresses, they are more likely to abandon your site, allowing your competitor to steal that transaction. You need a solution that will allow you to manage search phrasing and queries more effectively to provide your customers with that "right on the money" search experience that leads to a sale.

2. Consider strategically integrating key streams of data to enable personalization solutions

Companies often collect and analyze multiple, separate streams of data. Rarely, however, do they integrate these data streams with the aim of personalizing their customers' online shopping experience. Linking and integrating these data streams can deliver superior eCommerce search, payment and fulfillment results for your customers. When evaluating your plans for site search personalization, look for a solution that can integrate key customer data streams to deliver the best results.

3. Get a complete view of your customer

Many people think about personalization only in the online world, but you need to have a deep understanding through data of your customers' interests and behaviors across all your shopping channels including in-store, online and mobile. When you examine customers' behaviors via one channel the findings can be interesting, but when this data is viewed across multiple channels, it can transform your relationship with your customers and help boost your sales.

4. Choose the right personalization solutions

When choosing a personalization platform to enhance your customers' eCommerce shopping experience, there are several factors to consider. Does the system allow cross-channel data collection? Does it have the ability to aggregate data into customer profiles to better inform your marketing? Can it make adjustments to information presented to the shopper in real time? Answering these questions is the first step in your journey to provide your customers with a far better online shopping experience.

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What is your company doing to improve the eCommerce experience you deliver to customers?

If you'd like to receive invitations to our educational webinars, please email letstalk@bankofamericamerchant.com

What we're seeing

Bank of America Merchant Services processes 16.6 billion transactions at approximately 705,000 merchant locations through the U.S., Canada and Europe.¹⁶ Here are a few key spending trends we've detected so far this year.



Overall consumer spending from January 2018 through May 2018 showed **growth of 8.1 percent** from the same time period in 2017 across all industries.

Travel-related industries, **led by gas**, show the strongest growth rates.

eCommerce sales from January 2018 through May 2018 **grew 10.1 percent** compared to the same period in 2017. **Brick-and-mortar** sales **grew 4.4 percent** in the same timeframe.



This Insight was originally published by Bank of America Merchant Services in late 2017.

How machine learning can help you create a better search experience for customers

And why it's critical your machines don't learn the wrong thing

Ecommerce provides an unprecedented opportunity for businesses to analyze consumer behavior and enhance the customer experience like never before. For retailers that do a substantial portion of their business online, search is a key aspect of that experience. Successful companies are reaping the rewards of investing in machine learning to improve search.

More than three-quarters of retailers are planning to make a significant investment in artificial intelligence by 2021¹⁷, according to Zebra Technologies. In addition to improving search functionality, businesses are using the technology to provide personalized recommendations and streamline the checkout process. But while machine learning can bring huge benefits, simply including it in your toolkit isn't enough.

The value of machine learning is tied to the quality of information the machine takes in, how the machine uses the information and how this information is integrated into a comprehensive strategy that aims to refine the online search process and tailor the consumer experience. Unfortunately, too many retailers today are investing in machines that are learning the wrong thing — and that means their investment isn't delivering the returns they were expecting.

"Use of search is one of the highest intent-to-buy activities on an eCommerce website, and it's even more important for retailers in mobile," says Michael Roberts, Bank of America Merchant Services' chief marketing and digital strategy officer. "Businesses with significant product catalogs must curate effective experiences that meet customers' ever growing expectations for relevance and personalization, which are only achievable through machine learning."

The value of machine learning is tied to the quality of information the machine takes in, how the machine uses the information, and how this information is integrated into a comprehensive strategy that refines the online search and tailors the customer experience.

When thinking about how to optimize machine learning in your business, it's useful to focus on these key principles that help ensure your machines are learning the right things:



Clean your product data automatically



Use behavioral data for seamless personalization



Enrich machine learning with external data



Enhance findability within search



Leverage your data in real time for maximum value

MORE THAN
30%

of consumers have abandoned an online shopping cart due to poor online product descriptions.¹⁹

Clean your product data automatically

For retailers, effective machine learning efforts start by keeping detailed and accurate product data. This means classifying data consistently and intuitively so they contain no gaps, duplicate records or outdated information. This approach provides a strong foundation for advanced analytics that can provide a clear view of product performance and customer behavior — information that can in turn be used to continually refine the search experience for customers. And better results lead to increased sales.

Failure to clean your product data can result in an inaccurate or incomplete picture of who is buying what from your company — and why. “Dirty” product data can even result in lost customers and decreased revenue. Studies have shown that 40 percent of consumers have returned an online purchase within the past 12 months due to poor online product descriptions.¹⁸ More than 30 percent of consumers have abandoned an online shopping cart for the same reason, and nearly nine in ten consumers say they would be unlikely to make a repeat purchase with a retailer that provided inaccurate or incomplete product information.¹⁹

Use behavioral data for seamless personalization

The next step in optimizing machine learning for retail is to blend in data about how customers make purchases. “Having good, clean product data is important,” says Roberts. “But when you combine that with behavioral data, you can start to create personalized shopping experiences in a way that wasn’t previously possible.”

Pure-play eCommerce businesses don’t have the luxury of observing in-store customer behavior, but they can tap into specialized analytics as consumers navigate their online storefront. Is the shopper using the website, mobile web environment or a mobile app? How much time did she spend on the site? What did she search for? Has she searched for similar items multiple times on your site? Does she typically view ratings and reviews before making a purchase?

Each click from each customer who visits a website or mobile app is a data point. Visits and conversion rates are important, but it’s also important to monitor what happens between the moment someone enters your website and the moment she

9 IN 10

consumers say they would be unlikely to make a repeat purchase with a retailer that provided inaccurate or incomplete product information.¹⁹

decides to make a purchase — or leave. Companies that fail to capture this full range of data could miss out on crucial insights that spark new sales or new engagement points with the consumer.

Enrich machine learning with external data

The bigger and richer the data set, the more information machine-learning algorithms have to work with — and the “smarter” they become. Leading retailers collect internal and external data. The external data can then be used to target individual consumers with specific products at strategic moments. Two of the most commonly used external data categories are weather and geographical location, which can be used to refine recommendations and search results. For instance, a customer searching for outerwear in Buffalo may see trending items that include mittens and hand warmers, while a customer performing the same search in Seattle may see rain jackets and waterproof pants. By anticipating shopper needs based on location and climate, customers are directed toward likely purchases from the moment they enter a website or open an app.

Enhance findability in search

Optimizing online search function is one of the most powerful applications of machine learning. “Ineffective search is rampant in retail,” says Jennifer Allie, product program director for industry solutions and platforms at Bank of America Merchant Services. “Search can be what makes the difference between success and failure. Too many businesses neglect this area to focus on other aspects of digital infrastructure. But improving search function should be at the top of every retailer’s to-do list.”

A recent study found that 70 percent of the top 50 retail websites were unable to return relevant search results for product synonyms.²⁰ The same study found that 34 percent don’t return useful results when consumers search for a model number or misspell a single character in the product they’re looking for.

Businesses that don’t deliver personalized, relevant results risk alienating customers and losing revenue, says Allie. In fact, shoppers who perform in-site searches end up buying from that business at twice the rate of visitors who don’t use search.²¹ Businesses must ensure they are delivering the best possible experience for these shoppers.


Leverage your data in real time for maximum value

One of machine learning’s most transformative innovations is its ability to adapt to new input. Frequently shopped-for items can be identified quickly as hot new trends, which can be recommended to customers searching for similar items.

Likewise, a retailer may find that hammers are often bought with nails, or — more specifically — the steel drilling hammer is often bought with a chisel and pry bar. Once such associations have been identified, retailers can use them to make recommendations or deliver personalized search results.

Making the most of data

As investments in machine learning continue to expand, eCommerce companies that fully harness the power of data in order to customize the shopper experience will be the ones positioned to thrive. By improving the accuracy of their data, modernizing search functionality and leveraging big data and consumer behavior, retailers can boost revenues, improve customer experience and differentiate themselves in the marketplace. Data is essential to eCommerce success, but it’s only useful if it is accurate, clean and harnessed to inform and guide business decisions and investments.



For more information on how Bank of America Merchant Services can help you optimize your business and customer experience, contact your Bank of America Merchant Services business consultant at 855.833.3614 or merch.bankofamerica.com. We’re here to help.

Methodology

Unless otherwise specified, all data referenced in this report is Bank of America Merchant Services' aggregated merchant processing data and includes only card-based forms of payment. The analysis includes client settlement data from more than 705,000 merchant locations. This data reflects merchant sales for periods spanning January 2017 to May 2018. (Each figure presented in this publication specifies the data range and data source studied.) These locations include mid-sized businesses and large businesses, and the publication covers both brick-and-mortar and eCommerce transactions.

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About Bank of America Merchant Services

Bank of America Merchant Services connects businesses and their customers by doing payments better. The company delivers payments, eCommerce and security solutions, as well as consultation services, to businesses throughout the United States, Canada and Europe. It processed more than 16.6 billion transactions at approximately 705,000 merchant locations in 2017.¹⁶ The company is a joint venture that combines the technology and innovative products of First Data with the relationship strength and prominent global brand of Bank of America. To learn more, please visit merch.bankofamerica.com.

¹ Proprietary Bank of America Merchant Service processing data

² <http://www.bankruptcydata.com/p/business-filings-report>

³ <https://www.cnn.com/2017/12/26/store-closures-rocked-retail-in-2017-and-more-should-come-next-year.html>

⁴ <https://www.theatlantic.com/business/archive/2017/04/retail-meltdown-of-2017/522384/>

⁵ IHL Group (<http://www.ihlservices.com/product/debunking-the-retail-apocalypse/>)

⁶ Ibid

⁷ Bureau of Economic Analysis. <https://www.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=3&isuri=1&1910=x&0=-9&1921=survey&1903=65&1904=1997&1905=2017&1906=a&1911=0>. BAMS Analysis

⁸ <https://www.cnn.com/2017/08/08/amazon-prime-will-be-in-more-than-half-of-us-households-by-years-end.html>

⁹ <http://www.colliers.com/-/media/files/marketresearch/unitedstates/2017-research-reports/2017-retail-spotlight-report-globaldata.pdf>

¹⁰ <https://retail.emarketer.com/article/us-shoppers-still-prefer-make-most-purchases-in-store/58dd8922ebd400061c80f3cf>

¹¹ <https://www.forbes.com/sites/barbarathau/2017/06/27/five-signs-that-stores-not-online-shopping-are-the-future-of-retail/#6c3bb4794641>

¹² Business Insider, US Census Bureau, BAMS Analysis. <https://intelligence.businessinsider.com/post/the-mobile-payments-report-key-strategies-that-wallet-providers-can-implement-to-break-from-disappointing-growth-2017-11>

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¹⁴ <https://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201603.pdf>

¹⁵ <https://codebroker.com/landing-page/codebroker-2017-shopper-loyalty-survey-results/>

¹⁶ Per the Nilson report, March 2018, Issue #1127 and Bank of America Merchant Services data, June 2018

¹⁷ Business Insider, "Amazon Looks to Gain a Machine Learning Advantage," Sept. 2017 (<http://www.businessinsider.com/amazon-looks-to-gain-a-machine-learning-advantage-2017-9>)

¹⁸ Shotfarm Product Information Report, May 2016 (<http://www.shotfarm.com/product-information-report>)

¹⁹ Ibid

²⁰ Baymard Institute, "ECommerce Search Usability: Report and Benchmark," 2014 (<https://baymard.com/blog/e-commerce-search-report-and-benchmark>)

²¹ Smart Insights, "ECommerce Conversion Rates," April, 2016 (<http://www.smartinsights.com/eCommerce/eCommerce-analytics/eCommerce-conversion-rates>)



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