

Winning strategy for payment acquirer – Scale or innovate?

VIII Cashless Congress
September 15, 2020

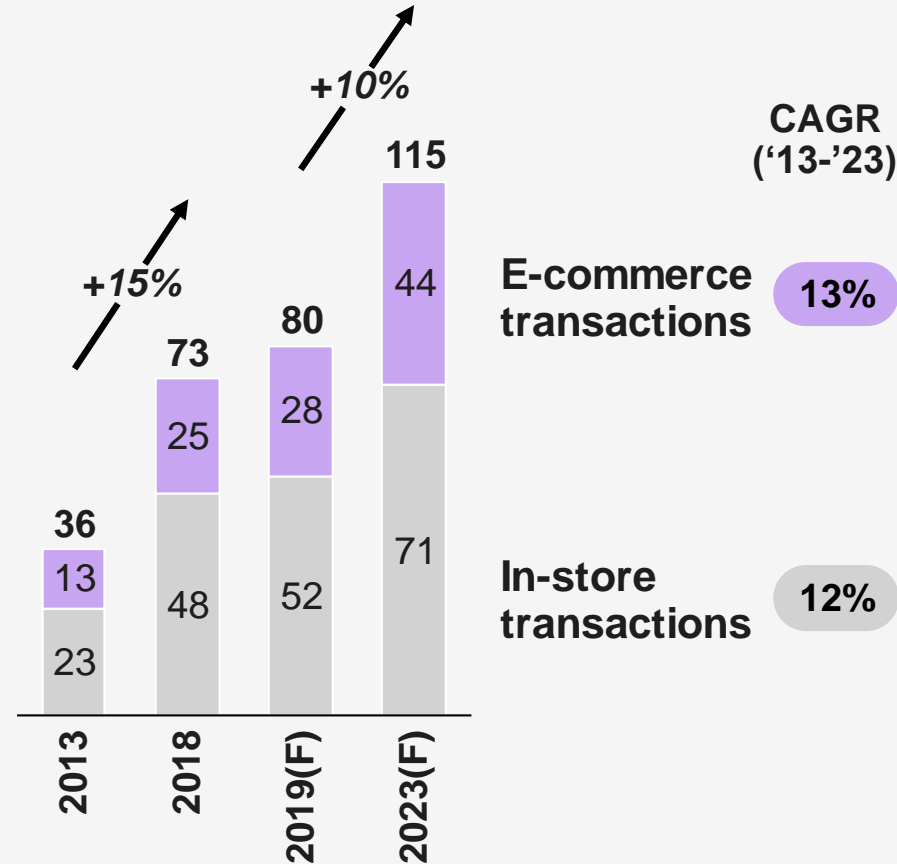
KEARNEY



Global payments acquiring revenue growth has been driven by e-commerce growth and card payments adoption

Acquiring revenues have been growing driven by multiple factors

Global acquiring revenues (in \$bn)



Revenue growth drivers



17% y-o-y growth in e-commerce sales since 2013



13% y-o-y growth in global card payments since 2014

Future growth expectations

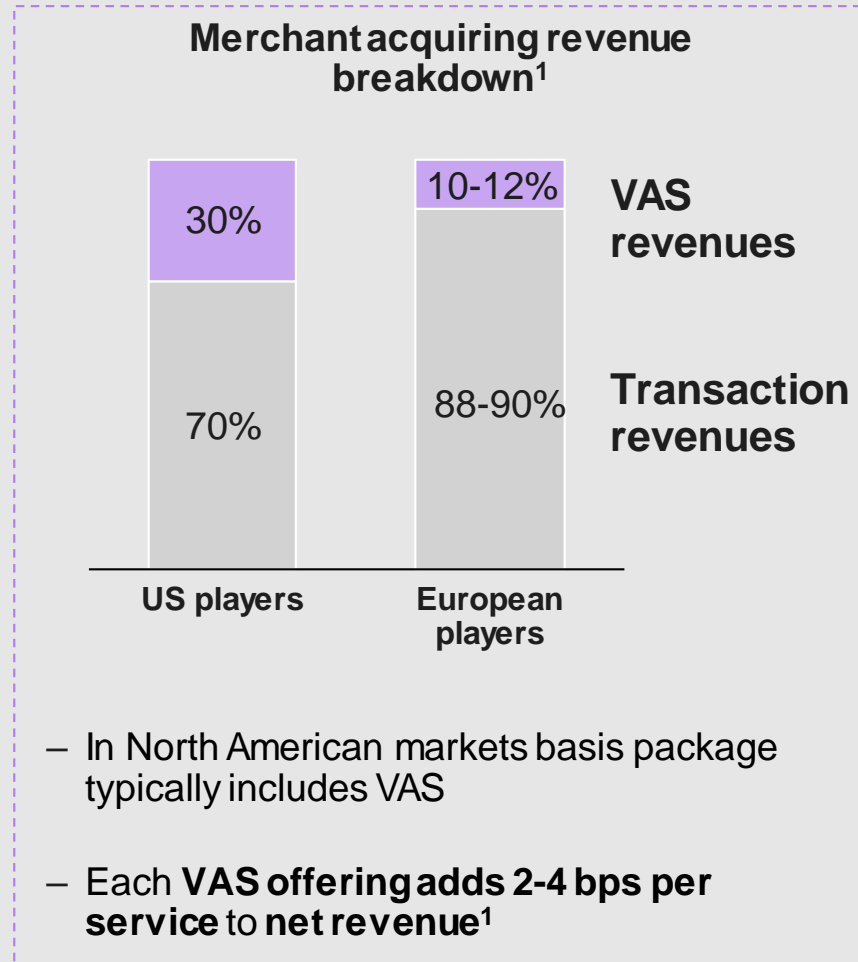


- More than 50% growth in merchant acquirer P/E valuations since 2013
- Current average P/E ~ 40¹

Note:
 1. Reflects P/E ratio of 100 global companies listed as acquirers, processors and payment companies in Bloomberg, as of Sep 3, 2020 (e.g. Square, Paypal, Global payments, Visa, Mastercard)

VAS portfolio can help to differentiate from competition, unlock new revenue streams and provide repricing potential

European acquirers fail to capitalise on value added services?



Note:
1. VAS revenues excluding DCC
Source: Industry reports, Packaged facts, Statista, Kearney

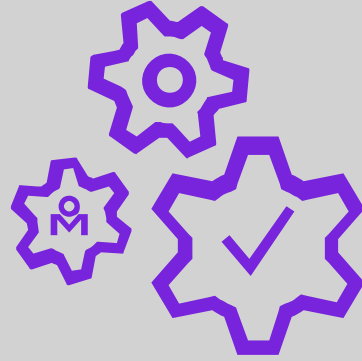
Reasons for building VAS offering

- 1 Differentiation and competitive edge** 
 - **Broad VAS offer vs large competitors can justify disadvantage in scale**
 - Business opportunities opened from PSD2 regulation
- 2 Additional revenue stream** 
 - **VAS expected to constitute approx. >20% of the acquiring market by 2023**
 - Business segments product diversification and lowered risk
- 3 Repricing potential** 
 - **VAS may serve as a tool that supports repricing initiatives**
 - E.g. launching a new, free VAS or service bundle for merchant

With increasing pressure on fee revenue- Is acquiring a game of scale or innovation?

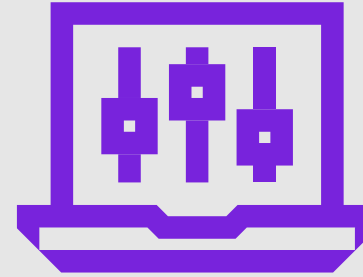
Avenues of innovation

Core services



- Merchant **solutions for payment acceptance & processing**

Merchant services



- **Support** for merchant **business daily financing & operations**

Customer services



- Services to **improve & enable customer shopping experience**

Majority of acquirer offerings in Poland are „traditional”

Acquirers' VAS spectrum in Poland



	Core services	Merchant services	Consumer services
Differentiating VAS	<p>Multi merchant</p>	<p>Merchant cash advance</p>	<p>Paysafe card</p> <p>Money transfers</p>
Popular VAS (offered by majority of players)	<p>Self-checkout terminals</p>	<p>MOTO</p> <p>Gift cards</p> <p>Loyalty cards</p> <p>Staff login</p> <p>Tips</p>	<p>Bill payment</p> <p>Prepaid top-ups</p>
Standard product portfolio	<p>Contactless payments</p> <p>DCC</p>	<p>Cash register integration</p> <p>Mobile payments</p>	<p>Card payments</p> <p>Online reporting platform</p> <p>Cashback</p>

Aren't acquirers sleeping while new entrants are threatening??



Global players offer inspiration



Core services



Merchant services



Consumer services

Front end merchant solutions

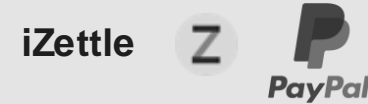


- **mPOS** with rich **VAS** e.g. APIs, ERPs, analytics
- **Global presence** with **15mn** monthly customers
- **Market cap: > \$50bn (2020)**



- **Omnichannel solution** with **VAS** like **shopper insights, fraud protection**
- Present in **100+ countries** with **3500+ customers**
- **Market cap: \$50.6bn (2020)**

Merchant business operations support



- **Cash advance** for **business operations**
- **Targets SMB** in **12 countries**
- **Market cap: \$2.2bn (2018)**



- **B2B & B2C e-commerce operations implementation solutions, offline/online payment services**
- Processes **40 bn+ transactions per year**
- **Revenue: \$1.8bn (2018)**

CX improvement services



- **“Pay later” and “Try before you buy”** service for merchants (e.g. H&M)
- **200K active merchant clients globally**
- **Op. Revenue: \$753mn (2019)**



- **Remittance services** in Europe in partnership with **Stripe**
- Present across **15 countries** processing **\$121bn** annually
- **Valuation: \$1.5bn (2018)**

Notes:
Source: Yahoo finance, Forbes, Company websites, Businesswire, Klarna, Kearney

Two alleys of pursuing innovation

Service/product innovation will be the future growth driver

1



Heavy lifting:
Inventing new products and services

- Looks for a massive breakthrough
- Unique, offers long term advantage, but not often



P2P payments



Autonomous car



2



Light:
Changing how we do the “old” things

- Re-purposes existing products/ payment methods to improve customer experience
- Simpler way to succeed



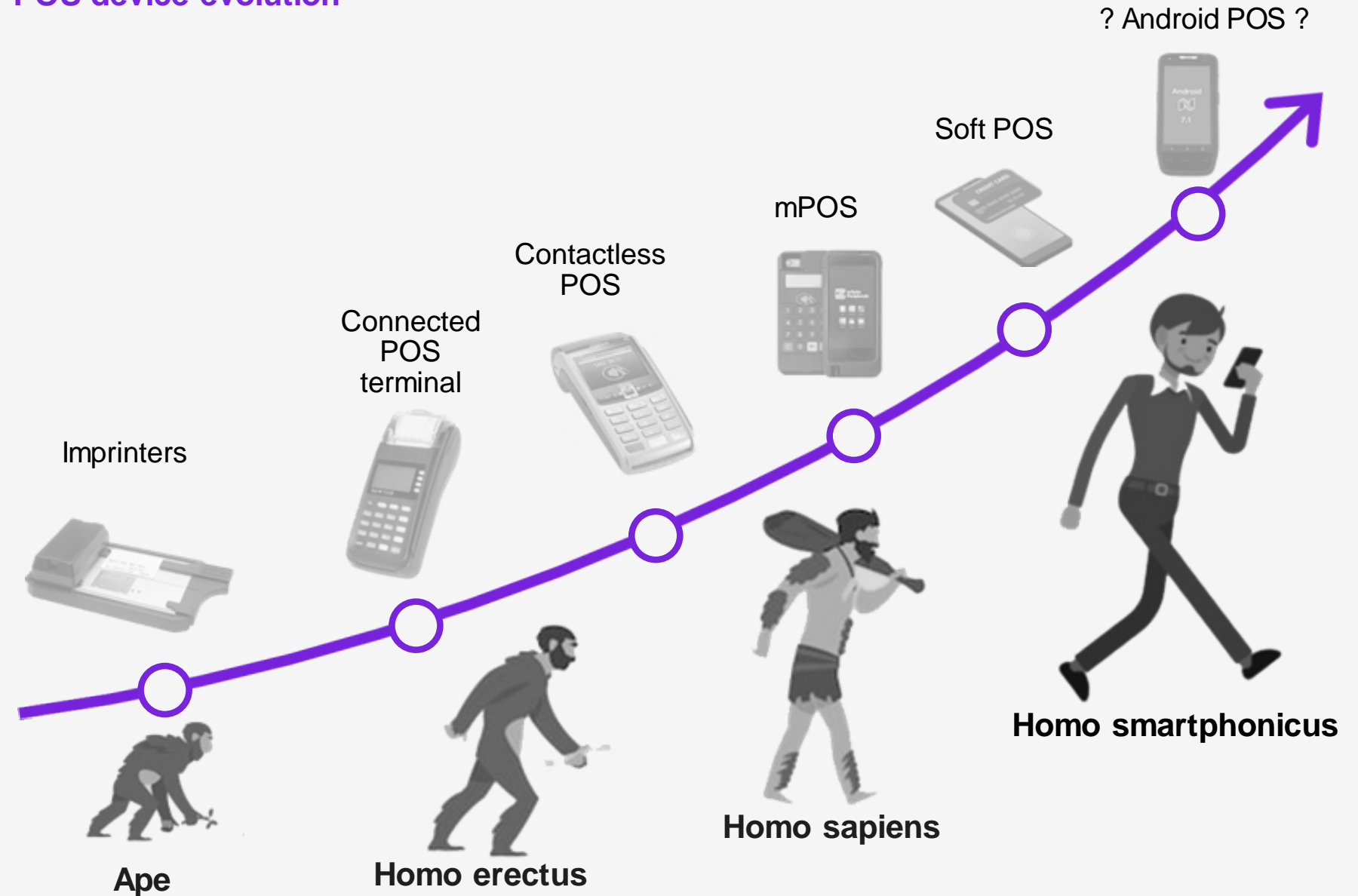
Frictionless checkouts



Smart / Android POS

The POS device evolution has been slow but consistently improved check-out experience

POS device evolution



Changing how we do the "old" things - example

Reviewing merchant and consumer needs should be a starting point



Merchants



Consumers



Want

- More footfall, higher sales, loyalty
- Bigger purchase baskets
- No queues
- Hassle-free payments receiving & settlement
- Easy access to capital
- One-stop operations support

- Buying without paying
- Immediate purchase enjoyment
- Buying now, paying later
- Secure online payments
- More payment options
- Simple and easy check-outs



Don't want

- Another POS device
- New security standards
- Changing regulations
- Customer loss due to complicated processes or system glitches
- Reduced sales due to poor CX

- Another card in a wallet
- Cumbersome checkout processes
- Declined payments
- Information sharing
- Payment fraud

What do you think future merchant acquiring services can look like?



Today



Core services

1. mPOS
2. Soft POS
3. Android POS
4. Self-checkout terminals
5. POS and ECR integration
6. Omnichannel - Online/offline integration
7. PSD2-based payments
8.



Merchant services

1. Liquidity and inventory financing
2. ERP / CRM/ sales analytics
3. Market analytics/ peer benchmarking
4. Loyalty / coupons
5. Open API for custom POS solutions
6. Fiscal cash registers and POS in one device
7. ...



Consumer services

1. Remittances
2. Instant installment loans
3. Buy now, pay later
4. Parcel pick-up
5. Try before you buy
6. ...



Tomorrow

Which services will be required in next three years?

Please provide your responses in link below

meet.ps

Meeting ID: 4321

You have 1 minute to provide your responses

Which merchant services do you think will be required tomorrow?

Poll questions



1. Please select 3 most important Merchant Services that will be required in future

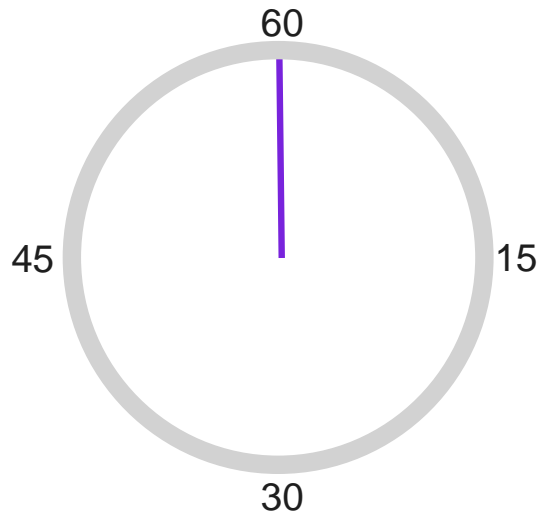


2. Please select 3 most important value add services for merchants that will be required in future



3. Please select 3 most important value add consumer services that will be required in future

Thankyou for your responses!



Tomorrow

Which services will be required in next three years?

Please provide your responses in link below

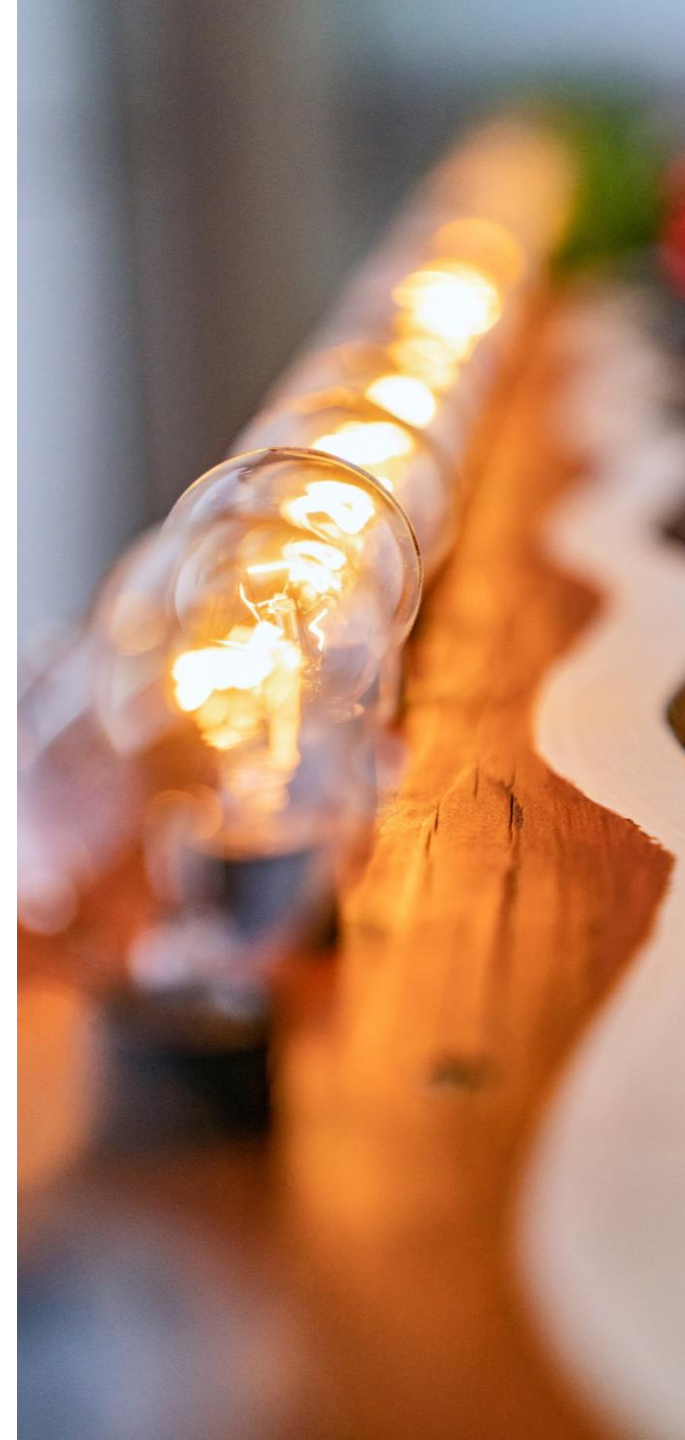
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Summary

1. International players prove that VAS portfolio can help unlock new revenue streams
2. Successful players offer wide range of solutions across core services, value add merchant and consumer services
3. Out of the two alleys of innovation, a lighter path of redesigning „how” as opposed to the new „what” more likely to succeed
4. Looking at the underlying merchant and consumer needs can help identify what will work in future
5. Acquiring is a game of innovation. It is time to act now!



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