

MOBILE APPS AND DIGITAL PAYMENTS

A WINNING COMBINATION FOR CREATING A BETTER CUSTOMER EXPERIENCE AND MORE PROFITS FOR MERCHANTS

This coming week, JEGI will be hosting a roundtable executive dinner on the theme of "Mobile-First Technologies & Digital Payments Fueling the Next Generation of Consumers." Our event falls five years after Google Wallet was introduced to the US market with much fanfare, but was accepted in only a handful of coffee shops in Silicon Valley. The vast majority of retailers showed little interest in accepting mobile wallets, since they required the adoption of expensive new payment devices. Similarly, most American consumers could not understand what the excitement was all about with using a phone to pay for a purchase.

The pendulum began to swing, however, as credit cards issuers established a goal of October 2015 for business to adopt EMV (Europay, MasterCard, Visa) payment technologies in the States (as has been the practice in Europe for years) to help reduce fraudulent card transactions. The rollout of EMV technologies provided a critical impetus for retailers to install card readers that enabled card acceptance by both EMV and Near-Field Communication (NFC) technologies, with the latter being significant for the widespread adoption of mobile wallets by retailers. (For those not familiar with NFC, it is the technology that allows contactless payments, such as tapping to pay with one's Apple Watch or iPhone at retailers.)

Heavy Adoption Ahead

While *CB Insights* estimates that only 20% of payment terminals are equipped for contactless payments, most large retailers have adopted the payment method, and the expectation is that smaller merchants will do similarly over the next few years (smaller merchants have effectively been given an extension on the October 2015 requirements of card issuers to comply with the new guidelines).

Consumers are warming up to mobile payments for a variety of reasons, ranging from convenience (e.g., you only need to take your phone when you go out and can leave your wallet at home), to security, to the promise of better loyalty programs and discounts. A recent study found that 39% of all US mobile users made a mobile payment in 2015, which is up from 14%

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NFC



EMV

NFC is the communication between two electronic devices that enables proximity payments to be made by either tapping or waving a smart phone in front of the terminal, whereas EMV is the insertion of a chip within the receiver to transfer payment.

MOTIVATIONS OF CUSTOMERS AND MERCHANTS FOR ADOPTING MOBILE WALLETS/PAYMENTS

Consumers	Convenience	Mobile wallets have a streamlined checkout system that allows users to checkout with minimal time wasted without needing a physical wallet
	Security	NFC methods use tokenization, adding a layer of protection for the users that inhibits fraud and identity theft
	Offers/Rewards	Users motivated by discounts are able to save through on-demand services and offers tailored directly to them
Businesses	Efficiency	Speed and efficiency of checkout enables merchants to save energy and minimize length of lines
	Loyalty	A mobile-enabled loyalty program encourages repeat customers and strengthens a brand
	Engagement	Businesses can attain valuable customer data to more effectively segment customers and improve retention metrics
	Accessibility	SMBs, like food trucks, are capable of accessing elegant POS-systems like Square with accessible fee structures

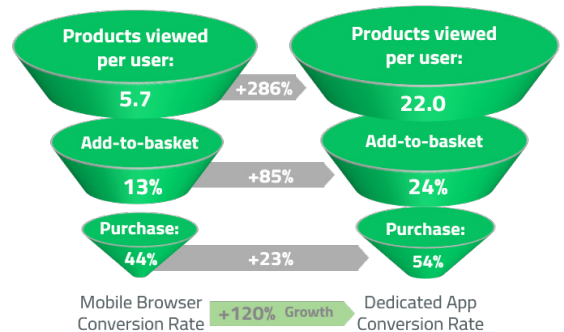
MOBILE APPS AND DIGITAL PAYMENTS (CONTINUED)

in 2014. It is estimated that by 2020, more than 90% of American smartphone users will have made a mobile payment. Similarly, merchants are seeing mobile payment solutions as a means to better engage with their customers, as well as streamline their operations.

Strong Effectiveness of Mobile Apps

Mobile wallets allow merchants to better identify and understand their customers across the physical and digital worlds. In addition, merchants are recognizing the superior ability of dedicated mobile apps at driving purchases relative to mobile and desktop browsers. Recent studies by Criteo have shown that the average order value achieved via mobile apps is 2% higher than an order completed on a desktop, and 10% higher than on a mobile browser. The chief reason for the success of mobile apps in driving sales is that they are optimized for the mobile environment (i.e., small screens with inconsistent network quality) and tailored to each merchant's offerings and brand experience. In addition, mobile apps have been shown to be more successful in driving purchases than mobile browsers at every point of the conversion funnel, as shown in the accompanying chart, and even exceeding the desktop rate by 20%.

GLOBAL RETAIL CONVERSION FUNNEL, BY CHANNEL



Increasing Use of Mobile for eCommerce

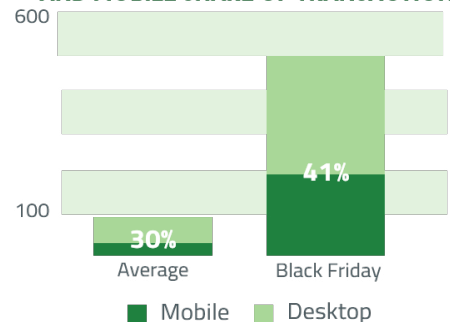
As we look ahead to the official start of the Christmas shopping season, it is worth noting the studies from last year on the impact of mobile (both mobile browsers and mobile apps) on online purchases. Black Friday Weekend 2015 reached an unprecedented level of mobile devices being used for online purchasing, with 41% of eCommerce transactions being completed on either a mobile app or mobile browser during the three days following Thanksgiving. To put this in context, the quarterly average for mobile being used for online purchases is approximately 30%, so mobile accounted for 33% more eCommerce transactions during the most important period for retailers in 2015 (Black Friday Weekend).

With analysts widely predicting that mobile will account for more 50% of online purchases during Black Friday Weekend 2016, the challenge for merchants is how to create a mobile experience that drives engagement with their customers and results in a transaction being completed. While there are clearly benefits for merchants in having consumers constantly tethered to their mobile devices, there is also the daunting reality that the five to seven-inch screens create a potential customer with far less patience than they might have when shopping from a desktop browser. According to studies by MasterCard, the average online cart abandonment rate is 68%, but soars to a distressing 97% on mobile!

Enhancing the Customer mCommerce Experience

With customers showing an increasing preference for doing more of their online shopping on their mobile devices, merchants are rushing to adopt solutions to

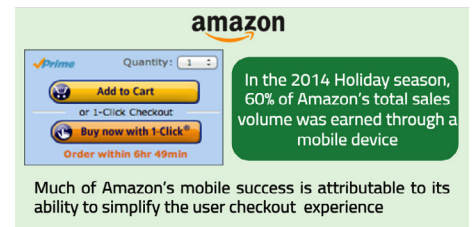
U.S. HOLIDAY RETAIL ECOMMERCE INDEX AND MOBILE SHARE OF TRANSACTIONS



Note: Index implies that Black Friday Weekend experienced 5x the average daily volume of Retail eCommerce transactions

MOBILE APPS AND DIGITAL PAYMENTS (CONTINUED)

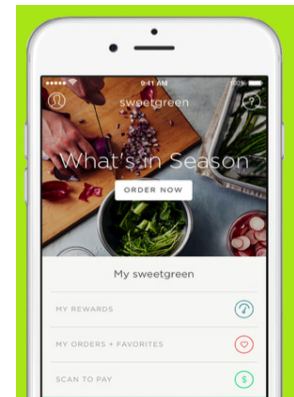
improve the mCommerce experience for consumers, with the goal of reducing friction in converting mobile shoppers into purchasers of their goods. Amazon is widely regarded as the leading merchant for developing solutions tailored to improving the mobile shopping experience, with its success largely attributable to its ability to simplify the user checkout experience.



Recognizing what has made Amazon so successful on mobile, merchants are looking to improve their own conversion rates by leveraging mobile wallets and other related mCommerce enablement services, like Autofill, which populates customer billing and shipping information. These solutions are enabling smaller merchants to streamline the purchasing experience on mobile devices by significantly reducing the amount of information that a customer has to enter on a small smartphone screen.

Mobile Gives Rise to Next Generation Loyalty Programs

The combination of mobile wallets and apps is allowing a broader group of merchants to develop more comprehensive loyalty programs to better engage customers, replacing the need for physical wallets stuffed with reward cards that are easily lost or forgotten. Merchants have recognized that it is far easier to drive profits through retaining and engaging current customers than by acquiring new ones. Several studies have validated this point by showing, for example, that a 5% increase in customer retention can lead up to a 95% increase in profit, and that it costs a merchant 5-10x more to acquire a new customer than to sell to an existing one.

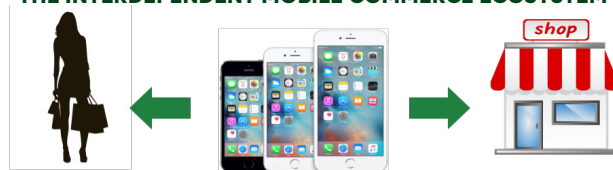


Sweetgreen, the quick-service salad restaurant, is regarded by many as a leader in leveraging mobile. It has achieved a cult-like following with the help of a loyalty program that is housed on a dedicated mobile app, which also processes payments. Mobile payments through the app represent the largest portion of this company's total transaction volume, ranking higher than any credit card. The Sweetgreen app is also the fastest way to pay (saving customers between 5 and 20 seconds at check-out) and also reduces the number of cashiers required at a venue. The company uses back-end components to track and analyze customer activity captured through its app and optimizes how best to engage a specific customer.

The Mobile Payments Road Ahead...

At JEGI, we are excited by the emergence of an interdependent mobile commerce ecosystem. Relying on mobile apps and mobile wallets to better engage with customers and drive profits, merchants are leveraging back-end platforms and tools tied into payments infrastructure, digital loyalty solutions and mCommerce enablement. Our firm has developed a more comprehensive report on this area; please contact Joseph Sanborn at josephs@jegi.com to schedule a time to meet to discuss it further.

THE INTERDEPENDENT MOBILE COMMERCE ECOSYSTEM



Front-end:

Mobile apps - mobile optimized access to a merchant's goods and services to better engage customer and deliver a consumer experience uniquely tailored to the brand

Mobile wallets - digital wallets that hold multiple forms of payment and digital loyalty; securely but easily accessible to the consumer and authorized merchant

Back-end:

Platforms, tools and analytics that leverage/connect to:

- Payments infrastructure
- CRM and loyalty systems
- mCommerce enablement solutions

ABOUT JEGI

JEGI has been the leading independent investment bank for the global software, tech-enabled services, media, marketing and information sectors for more than 28 years. Headquartered in New York, with offices in Boston and London (via its partnership with [Clarity](#)), JEGI has completed more than 600 high-profile M&A transactions, serving global corporations; middle-market and emerging companies; entrepreneurial owners and founders; and private equity and venture capital firms.

We provide clients with a global network of prospective buyers and senior decision-makers, as well as vast industry knowledge, perspective and intelligence. This affords our clients seamless access to deep market insights and a wealth of M&A experience, enabling us to deliver the highest closing rate in our industry and drive strong valuations.

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SELECT RECENT JEGI TECHNOLOGY TRANSACTIONS

 HAS RECEIVED A SIGNIFICANT INVESTMENT FROM <p>CARCO is a leading provider of tech-enabled and compliance-driven HCM and risk management solutions.</p>	 HAS BEEN SOLD TO <p>Accordant is a leading data-driven, full-service programmatic advertising company and technology solution provider.</p>	 HAS RECEIVED A SIGNIFICANT INVESTMENT FROM <p>PrizeLogic is a leader in digital engagement programs for major brands and retailers.</p>	 HAS RECEIVED AN INVESTMENT FROM AN UNDISCLOSED INVESTOR <p>Wiland is a leading data-driven marketing technology and intelligence platform.</p>	 HAS BEEN SOLD TO <p>Resource/Ammirati is a leading, US-based digital marketing and creative agency.</p>	 HAS BEEN SOLD TO A PORTFOLIO COMPANY OF <p>Instantly is a leading provider of online and mobile audiences and insights technology tools.</p>
 HAS BEEN SOLD TO A PORTFOLIO COMPANY OF <p>Soonr is a leading provider of enterprise secure file sharing and collaboration services for IT business managers.</p>	 HAS RECEIVED A SIGNIFICANT INVESTMENT FROM <p>Jun Group is a leading mobile video and branded content advertising platform.</p>	 HAS BEEN SOLD TO <p>Selligent is an international SaaS platform delivering omnichannel audience engagement.</p>	 HAS RECEIVED A SIGNIFICANT INVESTMENT FROM <p>erecruit is a leader in enterprise staffing software and vendor management systems for large staffing firms.</p>	 HAS BEEN SOLD TO <p>ecVision is a cloud-based provider of global sourcing and collaborative supply chain software solutions.</p>	 HAS BEEN SOLD TO <p>Iron Solutions is a leading software and data provider to the agriculture market.</p>
 HAS BEEN SOLD TO A SUBSIDIARY OF <p>onPeak is a leading event housing software and services provider.</p>	 HAS BEEN SOLD TO <p>RKG is a leading tech-enabled search and digital marketing agency.</p>	 HAS BEEN SOLD TO A PORTFOLIO COMPANY OF <p>ViryaNet is a leading provider of mobile workforce management solutions for field service.</p>	 HAS BEEN SOLD TO <p>Distimo is a leading mobile app market intelligence and analytics provider.</p>	 HAS BEEN SOLD TO FOR \$52,000,000 <p>Knowledge Advisors is a pioneer and leading SaaS provider of talent analytics to HR and C-level professionals.</p>	 HAS RECEIVED A SIGNIFICANT INVESTMENT FROM <p>MyWebGrocer is a leading provider of shopping and shopper marketing software and services.</p>

Note: Some of the transactions highlighted above were completed by JEGI Managing Directors Joseph Sanborn and Jeff Becker, prior to joining the firm.

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