

The COVID-19 Pandemic: The Impact on Commerce and Payments

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THE BLACK SWAN IN OUR MIDST

“A black swan is an unpredictable event that is beyond what is normally expected of a situation and has potentially severe consequences. Black swan events are characterized by their extreme rarity, their severe impact, and the widespread insistence they were obvious in hindsight.”¹

If ever there was an event that defined a black swan, it was the advent of the coronavirus that causes COVID-19 and its explosive expansion across the globe. As of this writing, nearly 13 million people have gotten the disease, and 569,000 have succumbed to it worldwide.² Other events have disrupted people’s lives, such as the recession of 2008 and 2009, but nothing prepared anyone for the global destruction caused by this pandemic. And that’s what’s hard about black swan events.

Since the launch of the crisis, more than 40 million U.S. citizens have filed for unemployment in the U.S. by May 28,³ and the unemployment rate in June was 12.3%.⁴ For context, unemployment during the 2008 recession was never more than 10%, and unemployment for the Great Depression in the 1930s peaked at 24.9%. In the U.K., the impact of the pandemic on employment is less than in the U.S. due to governmental support programs, but more than 9 million workers are out of work, and the cost of work-related benefits has jumped 126% since the beginning of the lockdown.⁵

Initially, consumer spending declined precipitously with the lockdown, as there were many less ways to spend, and consumers were generally husbanding resources to wait out the downturn. Now that economies are starting to reopen, consumers are starting to make more purchases, but some categories such as travel and hospitality remain at historic lows.

It’s a safe bet that no matter how the recovery from this event takes place, the world of commerce and payments will be very different on the other side of the pandemic. Fortunately, the global and U.S. economies were strong prior to the event, and that will help to lessen the potential impact. But the damage will be significant and the recovery difficult.

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1. Jim Chappelow, “Black Swan,” Investopedia, March 11, 2020, accessed May 5, 2020, <https://www.investopedia.com/terms/b/blackswan.asp>.
 2. “Coronavirus Resource Center,” Johns Hopkins University & Medicine, accessed May 12, 2020, <https://coronavirus.jhu.edu/map.html>.
 3. Jeff Cox, “Another 2.1 Million File Jobless Claims, but Total Unemployment Shrinks,” CNBC, May 28, 2020, accessed May 28, 2020, <https://www.cnbc.com/2020/05/28/weekly-jobless-claims.html>.
 4. Martha C. White “U.S. Economy Gains 4.8 Million Jobs, Unemployment Rate falls to 11.1 percent,” NBC News, July 2, 2020, accessed July 3, 2020, <https://www.nbcnews.com/business/economy/u-s-economy-gains-4-8-million-jobs-unemployment-rate-n1232746>.
 5. Richard Partington, “UK Jobless Figures Climbing but Most Dangerous Moment May Have Passed,” The Guardian, June 24, 2020, accessed July 1, 2020, <https://www.theguardian.com/business/2020/jun/24/uk-jobless-figures-climbing-but-most-dangerous-moment-may-have-passed>.

THE GRAND REOPENING (OR NOT)

On May 1, 2020, the U.S. began an experiment to determine the risk levels of various reopening strategies for the economy. This experiment is not by design; instead, each state is on its own in determining when and how it will reopen. As with the U.S., different nations are going to reopen at different rates and with the ever-present possibility of relapse, and this will be the “next normal” until a vaccine for COVID-19 is created and widely distributed.

The fundamental strength of the global and U.S. economies prior to the onset of the pandemic will help to lessen the economic damage, but economic recovery is still going to be difficult. This is a challenging environment in which to relaunch a business, and a few things will be true for small-to-midsize businesses that are reopening, no matter which market they serve:

- **Consumer spending will be slow initially:** With so many people out of work and funds, discretionary purchases will be slow to gain momentum. Nonessential and luxury purchases will recover slowly.
- **The movement to digital commerce will remain:** The lockdown has forced people to buy online, and every major digital retailer is showing significant volume growth. While some commerce will revert to traditional physical-world stores and face-to-face payments, a significant portion of the lift in digital commerce will remain in place going forward.
- **BOPIS is a thing, and so is BOPOS:** Buy online/pick up in-store (BOPIS) has also become a more standard practice as consumers avoid contact with retail associates at checkout. Curbside delivery and takeout (buy online/pick up outside store—BOPOS) will be maintained and adapted into permanent service capabilities for many retailers.
- **Contactless transactions will achieve critical mass:** Both Visa and Mastercard have reported significant uplift in contactless transactions due to customer and merchant concerns about physical contact with point-of-sale (POS) terminals.
- **Cash is no longer king:** Concern about “dirty money” will add momentum to the “war on cash.” Expect to see a migration to noncash transactions in-store and a dramatic increase in person-to-person transactions through organizations such as Venmo.
- **Pressure to accelerate reopening will be incessant:** Consumers and some political leaders are eager to open the economy as quickly as possible in spite of the inevitable relapse of the pandemic. It will be difficult to get the genie back into the bottle after the lockdown begins to lift.

PAYMENTS IN A PANDEMIC

Here are six steps that retailers should consider as they reopen their physical stores:

- **Put employee and customer safety first:** Restructure the checkout area to minimize or eliminate any potential contact between customers and employees that might expose either to the virus.
- **Go contactless:** Contactless transactions help to eliminate a highly visible source of physical contact—the POS terminal.
- **Integrate digital and physical-world payments:** Customers have already moved toward integrated payments with their increased use of digital commerce. The pandemic creates an opportunity to assess the payment suite and identify ways that the payment process can be simplified and consolidated.
- **Increase acceptance:** Beyond acceptance of the four primary global networks, look at alternative payment schemes that are increasingly popular in global markets, such as Alipay and WeChat Pay.

Adding a way to extend payments over time at the POS will also increase the opportunity to sell. POS lending offerings—whether interest-free installments for a fairly short period such as 12 weeks or more traditional consumer lending products—can enable sales of larger-ticket purchases or help consumers lower the pressure on their personal cash flows.

- **Use loyalty programs to encourage and reinforce customer purchase behavior:** Extend or eliminate point expiration and include powerful promotions and offers for specific actions, such as offering triple points for behaviors, products, or categories that will strengthen the business.
- **Prioritize customer assistance:** Christine Barry, a research director at Aite Group says, “Times of crisis are when you can either lock in a customer for life or lose that customer forever.” Every effort should be made to ensure that the customer is completely satisfied when a customer interaction is complete. A good example: A real estate attorney changed his business process to enable customers to sign closing documents outside his office. Clients can sign documents in their car, or he will go to their homes to obtain needed signatures. The clients keep the pen at the end of the transaction.

THE TRANSFORMATIVE OPPORTUNITIES OF A BLACK SWAN EVENT

With the global economy at a near standstill, there is time to examine the business and identify processes and products that may not be optimal. It's also an opportunity to better understand the business and what does and doesn't work. The president of a five-store retail chain in the U.S. says that the best thing about the pandemic is that it taught her what is really important to her customers. Her motto for the past few months has been, "If you don't learn, you don't earn." The following are some questions to consider when evaluating the business:

- **What systems/processes are unnecessary or redundant?** With everything shut down or running at low levels, there's less risk of disrupting core processes when a system is modified. It's a good time to clean up your tech.
- **What can the business move to the cloud?** The immediate movement to working from home challenged many companies with technology housed at the workplace. Moving processes and information to a secure cloud allows work to continue from any location.
- **Are there areas of the business that would be more efficient or cost-effective if they were handled by a partner or a vendor?** Anything that isn't directly relevant to the core business can potentially be offloaded to a third party, increasing capability and potentially lowering costs or moving expenses from a fixed to a variable basis.
- **Are any areas of the business getting more resources than they need?** The CEO of a consumer lending company says that he found that "the core business pretty much runs in automatic and we had a lot of resources allocated against that business that we really don't need." He was able to reduce expenses in that business area and then reallocate resources to the initiatives that will take the business to the next level.
- **What functions can remain virtual/remote?** Many businesses and their teams have discovered that working from home has little negative impact on productivity. If some of those functions can remain remote after the pandemic abates, less office space will be needed, and many employees will be happier when they are able to work remotely.
- **Is the business prepared for future "black swan" events?** It's not possible to predict the next black swan event, but every business can take actions to lessen the impact or damage that might occur. This could include husbanding cash, accelerating digital transformation, or establishing contingency plans for closing locations.
- **Is there a new business opportunity that could be attacked?** The pandemic is changing the world in ways that are not yet understood, but remote delivery, virtual commerce, and communications will create new opportunities and potentially new industries. CVS and UPS are testing drone delivery in Florida so that senior citizens can safely receive their prescriptions without leaving home. Be open to new and profitable ways to expand the business.

HOPE IS NOT A STRATEGY—OR IS IT?

An aphorism frequently heard in management consulting is that “hope is not a strategy.” That’s sound guidance when developing a strategic analysis or a business plan in normal times, but these clearly aren’t normal times. As tough as it can be sometimes, having a positive attitude, thinking past the immediate challenges, and, yes, having hope for better times can be core components of the reemergence of small-and-midsize businesses and the reawakening of our global economy. Beyond the commercial and payment activities that businesses need to address as the global economy reboots, here are some suggestions for leaders to help keep perspective over the next several months:

- **Put people first:** Nearly every individual on the planet is experiencing some form of duress caused by the pandemic and its economic impact. This is a time to be generous with praise, flexible with policy, and friendly when interacting with colleagues, employees, and partners/vendors.
- **Keep the big picture:** It’s easy to get lost in the details when faced with an intensely tactical situation such as restarting or rebuilding a business. Keeping a vision of the way forward and the desired end state will inform and validate day-to-day decisions and actions.
- **Take care of number one:** It’s often logical and sometimes expected that a leader bears the brunt of the problems encountered in a business. Right now, though, the hard stuff that a business leader needs to deal with is layered on that individual’s own problems and concerns. It’s essential that leaders are rested, are emotionally balanced, and have the support of their personal networks of friends and family.
- **Stay positive:** A positive, optimistic attitude is a valuable strategic tool right now. Keep in mind that there will be better days ahead and focus on the good things that are all around us. This, too, shall pass.

CONCLUSION

- **Ensure that customers and employees are the first priority.** The health and safety of consumers and staff are now part of the core operation of any business and will be for the foreseeable future.
- **Focus on reducing or eliminating friction at every customer touch point.** Review payment processes to ensure that they make purchase transactions as fast and seamless as possible.
- **Complete or expand digital transformation.** If at all possible, upgrade payment platforms and move to fully integrated digital payment and commerce solutions.
- **This is an opportunity to rethink the business.** Take time to objectively explore the business to find ways to enhance the customer value proposition and/or increase the efficiency of the enterprise.
- **Stay optimistic and take care of yourself.** Sooner or later, this will pass, and the world will be a more stable and predictable place. A positive attitude, an optimistic vision, and a rested and healthy leader will ensure that the business is in a good position to prosper once the “next normal” arrives.

ABOUT AITE GROUP

Aite Group is a global research and advisory firm delivering comprehensive, actionable advice on business, technology, and regulatory issues and their impact on the financial services industry. With expertise in banking, payments, insurance, wealth management, and the capital markets, we guide financial institutions, technology providers, and consulting firms worldwide. We partner with our clients, revealing their blind spots and delivering insights to make their businesses smarter and stronger. Visit us on the [web](#) and connect with us on [Twitter](#) and [LinkedIn](#).

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