



# Chicago Payments Symposium: "Collaboration Lessons Learned"

September 24, 2013

THE BOSTON CONSULTING GROUP



# Thoughts on lessons learned around collaboration

---

## Objectives

---

**Provide useful ideas about how to succeed in collaborative initiatives**

**Outline distilled lessons learned**

**Discuss "war stories" to make this tangible and real**

**Offer thoughts on current collaboration efforts**

**Be entertaining, even provocative**

## BCG experience in payments and collaboration

---

### **BCG is old, large and global**

- 50 year old firm
- \$4B in revenue
- 78 offices, 43 countries

### **Payments practice**

- 20 years of publishing reports
- Execute about 100 projects per year
- Proprietary global payments model

### **Collaboration experience**

- Dozens of public, high-profile cross-industry, cross value-chain efforts over past 10 years
- Thought leadership
  - BCG publications
  - Harvard Business Review articles
  - Books include "Stacks", by Philip Evans coming out soon

# Collaborations are nothing new in the industry

Several current trends point to the need for collaboration is not going away

## Established, mature existing entities sprung from collaboration



## Why collaboration matters more than ever today

### Easier to share, leverage data

- Communications, semantic identity resolution, large scale analytics on data sets

### Extend scale beyond what is available to collaborators individually

- Big data
- Linux development
- Leverage high-speed networks

### Greater value attached to goodwill in developer/user communities

- Inspiration from Linux, Wikipedia

### Strong innovations/changes

- Dismantling the value chain
- Appreciation to compete only where it matters

# In today's complex payments ecosystem, collaboration is critical for success

Consumers

**Consumer access**

Handset makers

Mobile OS players

Carriers

Web portals / social media players

**Marketing / commerce solutions**

Awareness: placecast, admob, iAd, 4INFO, Google AdSense

Consideration: GROUPON, yelp, COUPONS, where

Purchase: OpenTable, SeamlessWeb, F, KAYAK, FANDANGO

Loyalty: CardStar, Key Ring, foursquare, scvngR, Starbucks

Analytics / VAS: geodetic, Urban Mapping, dunnhumby, locationlabs, POSTLING

**Mobile payments solutions**

NFC payments: Sprint, ISS, RIM, BlackBerry, SAMSUNG, Google, zenius, vivo tech

Non-NFC payments

Other contactless	HW enabled	Barcode	Other app	SMS based
bling, Visa payWave, express pay, paypass	CHARGE Anywhere, SQUARE, OLD NAVY, intuit, PAYware, PC	Starbucks, cimbal, FaceCash, tabbedout	PayPal, Jumio, bango, Taxi Magic	lobopay, boku, ZONG, smscoin, BilltoMobile

**Traditional payments solutions**

Issuers: citi, CHASE, Bank of America, HSBC, BARCLAYS, WELLS FARGO, AMERICAN EXPRESS, DISCOVER NETWORK, USAA, GE

Networks: VISA, MasterCard, AMERICAN EXPRESS, DISCOVER NETWORK

Online payment providers: PayPal, Google wallet, serve

Stored value cards: green dot, CratoBarrel, pay.com

**Merchant interface**

Marketing interface: yodle, ReachLocal, orangeSODA, YELLOW PAGES

Merchant acquirers: FirstData, Elavon, AllianceData, FIS, FIDELITY NATIONAL INFORMATION SERVICES, CyberSource

POS / terminal manufacturers: VeriFone, HYPERCOM, FirstData, vivo tech, ingenico

Merchants

# Consequently several major collaborations in the payment industry currently ongoing

Entity	Description
	Collaboration of leading U.S. retailers to build platform for smartphone-based transactions
	AT&T, T-Mobile and Verizon JV in mobile payments, extensive partnerships across value chain
	Owned by top 20 banks, operates clearing systems, ACH and wholesale funds transfer system <ul style="list-style-type: none"><li>July 1, 2013 press release on mobile payments</li></ul>
	Online payments and money transfers – collaboration by acquiescence, partnership with Discover for POS acceptance
	Mobile payment system powered by customer's existing plastic, leveraging MasterCard prepaid front-end
	Merchant services aggregator and mobile payments provider, partnership with Starbucks and Paymentech
	Person-to-person payment system, partnership of Bank of America, JP Morgan Chase and Wells Fargo

# Collaboration in a different industry: The Orbitz Story

Decreased annual distribution costs \$1B, made \$1B in sale, unbiased display the industry norm

## Disintermediation

- Online travel agencies (OTAs) wedged themselves between airlines and their customers
- Leveraged existing value-chain infrastructure



## Questionable business practices

- Demanded "commission overrides" for placement
- Owned by convicted monopolists



## Suboptimal customer experience

- Customer suffers as they see partial inventory and biased display



## Clear principals to improve customer value-proposition

- Full price discovery
- Unbiased display
- All airlines treated the same way, not just equity owners

# Lessons learned for successful collaboration

## Strategy

- 1 Identify the right problems to tackle
- 2 Target a critical mass – ensure market and players are significant in size
- 3 Define the strategy and function of the management team and corroborators
- 4 Aim for an industry standard bolstered by clear governance

## Environment

- 5 Create an environment in which every stakeholder wins
- 6 Pursue collaboration only when economics make sense for parent company
- 7 Provide a solution that could be available to the broader industry

## Capabilities

- 8 Ensure similar capabilities/goals across comparable corroborators
- 9 Avoid temptation to vertically integrate
- 10 Ensure Chinese wall - permit separation of the collaborative from the competitive

# Collaborative efforts in the payment industry provide platform for learning what factors drive success

## Entities



## Lessons learned

### Strategy

- 1 Right problem
- 2 Critical mass
- 3 Nailing the strategy , mgmt function
- 4 Governance and standardization

### Environment

- 5 Win-win for all
- 6 Economics matter
- 7 Industry wide solution

### Capabilities

- 8 Similarity of capabilities
- 9 Avoiding vertical integration
- 10 Chinese walls



**Carl Rutstein**  
**Senior Partner**  
**[Rutstein.Carl@BCG.com](mailto:Rutstein.Carl@BCG.com)**

# Appendix

# Orbitz was online travel company built for the airlines

## Situation

- Internet distribution of airline tickets was the fastest growing channel
- Expedia (Microsoft) and Travelocity (Sabre) controlled over two-thirds of the market
  - biased display towards airlines that paid “commission overrides”—seen as bribes
  - fear of commoditization of the carriers
- Further, back-end reservation systems (i.e., Galileo, Sabre) raising booking fees annually despite technology costs falling

## Case description

- BCG brought airlines together to understand the threat and propose a solution
  - jointly worked with Delta, United, Northwest and Continental
  - built a new company that the airlines owned
- Served as the management team of new company for first year
  - secured American Airline’s inclusion
  - created incentive structure for another 25 airlines to join
  - conceived/built winning customer value-proposition
- Hired full-time employees to replace BCG professionals

## Impact

- Expedia, Travelocity removed bias within three months after launch
- Termed “most successful online start-up ever” by Business 2.0
  - largest e-commerce launch on record, Nielson Net Ratings
- Highest ranked online travel site in Forbes annual ranking
- Saved over \$1 billion in annual distribution costs for the industry
- Went public, then sold to Cendant, netting the airlines more than \$1 billion profit

# The Boston Consulting Group

## Deep payments expertise

- 100 payment projects annually across a broad range of topics
  - Payment economics and overall strategy, business model innovation
  - Responses to regulatory reform, impact of the Great Recession
  - Consumer segmentation and product/market/pricing strategies
  - Re-architecting of payment infrastructure
  - Partnerships, alliances, joint ventures, outsourcing / insourcing, reengineering

## Robust payments value chain experience

- Providers: extensive projects across variety of topics from business to operating models
- Processors and networks: projects for leading processors and acquirers and ongoing client relationship with all the major global card networks
- Consumers: deep customer discovery on payments needs, dissatisfactions and aspirations
- Merchants / businesses: broad work with major B2C and B2B businesses to develop strategies and understand payment needs
- Technology: robust technology practices and experience with technology companies and payments industry innovators, including helping set up new entities/players
- Government: extensive collaboration with local and national governments as well as regulatory bodies relevant to global commerce

## A large network of experts

- Network of over 4,000 consulting professionals
- Ability to staff locally from 78 offices around the globe
- A track record of leveraging our talents for our clients' issues
- Strong project management capabilities

## Distinctive collaborative approach

- Analytically rigorous approach to provide fact-based, insight-driven solutions
- Collaborative working-style with team members to ensure a truly customized solution with clear ongoing ownership

# BCG publishes extensively in payments and retail banking

