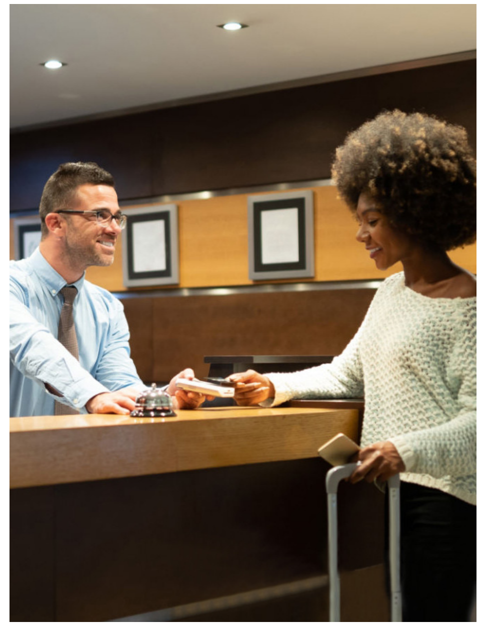


PREPARING FOR THE RETURN OF DEMAND

How America's Retail & Hospitality Tech Elite Tackle Disruption with New Commerce Investment

Detailed Insights by 50 C-Level Executives in the Retail & Hospitality Sectors

J.P.Morgan

FREEDOMPAY

EXECUTIVE OVERVIEW:

2020 saw the start of a new decade. Outlooks for U.S. retail and hospitality were bright, and tech investment was soaring.

Across America consumers were spending, and life was good for many as transactional volumes grew in retail, hotels, casinos, sports stadiums, restaurants, venues and bars. Two in three Americans were expecting a rise in pay. Retailers were anticipating almost 4% growth. And the U.S. hospitality industry was basking in nearly 10 consecutive years of growth.

Digital and mobile-first consumers were becoming more empowered at checkout and their interaction was reframed in terms of 'experiences' rather than transactions.

How were retailers and hospitality executives managing big-ticket, big-data tech investment, integrating customer-derived data and add-ons? What was the impact of accelerated change? And how was it shaping stakeholder value, attitude to risk and relationships with suppliers?

To answer these questions and ensure they were fully aligned with the needs of their retail and hospitality clients, FreedomPay and J.P. Morgan came together for the first time and commissioned an independent study of primary IT decision makers in America's foremost organizations.

A sphere of influence that will shape the industry direction over the next 10 years. To drive right to the heart of the most important trends, researchers interviewed the very top echelons of the industry. Over many months, 50 C-level and Head of Function executives from top-ranking retail and hospitality brands were interviewed. Hours and hours of qualified content was recorded to provide deep and meaningful insights.

This included eight out of the top 15 U.S. hotel groups and one of America's top three retailers with a turnover of more than half a trillion dollars.

It also covered many of America's favorite restaurant, food and beverage chains, general and specialist retailers. With businesses ranging from hundreds-of-million and to multi-billion U.S. dollars, their combined tech investment is not only driving innovation but is setting the benchmark for customer interaction within their specific sectors.

Capturing the moment customer engagement changed forever

It was during these conversations that the world was rocked to its foundations by a new pandemic – COVID-19. This sparked an international crisis leading to U.S.-wide state lockdowns, restricting events and travel and placing bans on indoor dining. Consumer spending across all retail sectors was vastly limited. Throughout 2020, our deep-dive interviews were able to capture the thinking of the most influential players, gauging their personal 'front-line' assessment of the true impact of COVID-19 on commerce, customers, employees and vendors.

Essential reading for payment innovators and IT decision-makers

This report summarizes the key findings of the J.P. Morgan and FreedomPay – Future of Retail & Hospitality Tech Leadership Study and offers vital learning points for enterprise and mid-market merchants across all verticals.

It reveals the underlying industry challenges, thrown to the surface during the pandemic, that are now reshaping tech investment for the future. And provides unique insight to help build more effective data-commerce strategies, create new roadmaps and shape vendor relations in 2021 and beyond. Importantly, it helps focus their innovation efforts on priorities that will accelerate recovery, optimize sales and capitalize on future demand once lockdowns and restrictions are lifted.

The World Has Shifted And So Have Tech Priorities.

Two years ago, North America's retail and hospitality sectors were riding high and focused on growth.

Across the board, transaction-based service industries were waking up to the importance of payment architecture and service empowerment. Growing numbers of technology and C-suite leaders recognized that data-driven commerce was strategically important for customer acquisition, conversion, uplift, and loyalty.

54% of hotels had increased their technology budgets. Global retail technology spending was forecast to reach $203.6 billion, and 75% of U.S. retailers were citing a growing urgency around digital transformation and prioritizing payment

At the same time, 80% of America's restaurants were planning to increase their spending on customer service and back-of-house technologies such as online or app ordering, mobile payment, delivery management and reservations, and point-of-sale (POS) upgrades, inventory and table management.

Then - almost overnight - everything changed.

2020 witnessed a pivotal moment: a 'Black Swan' event that reshaped the future.

While the risk of a global pandemic had been on the radar for several years, COVID-19 took America by surprise – both for its ferocity and speed of spread. Recognized as a Black Swan event - something that is rare, unpredictable, beyond control, and with potentially severe consequences - its impact was underestimated yet obvious in hindsight.

Against a backdrop of shattered forecasts, crippling logistics and hindered sales, its presence intensified existing data-commerce challenges and pushed many new ones to the forefront – including how to accelerate Touchless Commerce capabilities including contactless payment and mobile self-service.

Some of the changes brought about by COVID-19 are immediate and obvious, e.g. keeping customers safe, and while others are subtle and slow-burning, e.g. 'what does loyalty look like now?', 'what will it look like in the future?', and 'will today's approaches still be relevant tomorrow?'

What is clear is that those who understand the significance of disruption and take action now will be better placed to build their businesses back to health once demand returns.

To compete in heavily disrupted markets – whether from technology, behavior or events – customer engagement, interaction and transaction must evolve.

There will have to be renewed focus on digitalization, mobilization, and greater unification and sharing. At the heart of this will be real-time, data-driven commerce. Not only will this drive faster and more convenient payments, and increasingly compelling loyalty and easier-to-redeem rewards, it also provides the rich data needed to predict trends and target customers, optimize pricing and customer service and elevate sales revenue and growth.

To this end, leaders will have to prioritize and manage both 'business as usual,' special technology focus projects, business strategy pivots, and rip and replace initiatives. But how and where do they start?

This report aims to help them clarify their thinking and recalibrate tech-investment strategy in the future, post-pandemic world.

To compete in heavily disrupted markets – whether from technology, behavior or events – customer engagement, interaction & transaction must evolve.

Retail & Hospitality: Tech Leadership Study Key Findings

A unique barometer that reflects attitudes to investment through four key lenses.

This report distils over 50 hours of conversation with retail and hospitality's most influential CEOs, CIOs, CTOs, CMOs and functional heads (VPs and Directors of IT, Strategy and eCommerce).

Using a mixture of deep-dive qualitative insight and 'unprompted' front-of-mind quantitative analysis, it delivers powerful insight into what's actually happening behind tech-innovation investment and how COVID-19 has shifted leadership agendas.

The study concentrates findings through four strategic 'lenses' or 'focus areas' that will shape retail and hospitality data-commerce investment priorities in 2021:

1. Challenges and opportunities
2. Return on investment and value
3. Stakeholder expectation
4. Ethics and compliance

Challenges and Opportunities: At the start of 2020, there were marked differences between the challenges facing different decision-making levels. These were also dependent on the size, sector and scale of businesses.

CHALLENGES PRIOR TO COVID-19

HEAD OF FUNCTION

- 32% Supporting growth and legacy systems
- 31% Being future-customer ready
- 25% Developing support structures for change
- 25% Use of data
- 20% Global connectivity
- 20% Organizational tech investment culture

C-LEVEL

- 63% Low-risk investment/evolution strategy
- 25% Optimizing existing systems
- 13% Training employees on new technology

Senior decision makers tended to focus on immediate commercial priorities, e.g., optimizing legacy structures and low-risk tech investment, while Head of Function priorities were split between improving existing systems and being customer-ready for the future.

One in three (32%) saw supporting business growth and legacy systems as a major challenge. In the hospitality sector, this was often as a fallout of merger and acquisition (M&A) strategy and managing data flows between physical and virtual channels. In retail it was driven by a need to play 'catch-up' as the market evolved in line with new customer expectations.

In fact, meeting customers' evolving needs was a clear concern across segments, with a third of respondents (31%) seeking ways to gain more data and better insight into the customer journey and how to influence it.

This was borne out by the Head of Digital Marketing for a popular retail brand: "Getting clean and accurate raw data and then having the tools to turn it into a 'story' that we can visualize, understand and act on is a work in progress."

The CMO of a restaurant hospitality group adds: "From CRM and social outreach to booking, loyalty, gifting, and payment, we have seen touch and data-collection points multiply. Every interaction and transaction is now digitized. But data can get trapped in silos and functions, impacting its value and use."

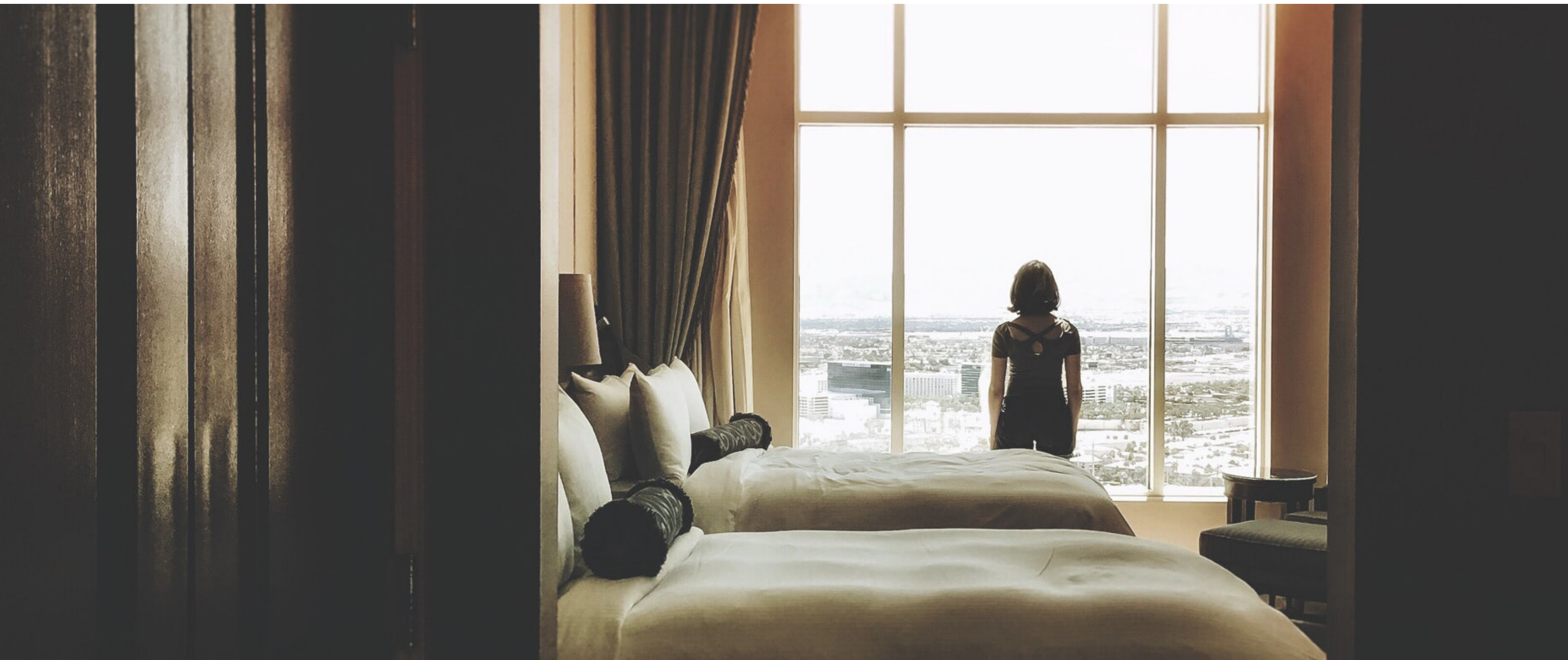
As with most industries, keeping pace with change was a common theme, with a quarter (25%) concerned with developing structure to support it. Indeed, issues around managing change permeated all levels - from business structure and philosophy, product and service portfolio, resources and talent, all the way through to managing customer behavior and expectations and the impact of multiple channels and tech (such as mobile) on service experiences.

C-suite leaders faced tough decisions about where to invest in order to minimize risk and get the most out of their existing systems.

Two in three (63%) were dealing with issues around tech investment direction, and where best to allocate resources - from POS and eCommerce platforms to data analysis and mobile apps.

A reluctance to invest in innovation 'ahead of the curve' meant the industry as a whole was lagging behind - especially when it came to online selling and harnessing new smartphone-based mobile guest and shopping services.

The VP of Operations for a hotel chain explains: "With thousands of hotels each with hundreds of guest and back-end systems, multiple platforms and tech vendors, it's hard to think of updating and replacing - or integrating for example a mobile app - without it impacting continuity of service. It's also hard to implement more holistic and consistent guest approaches if it requires capital investment without getting adoption first." One in four respondents (25%) were also facing



major issues just getting the most out of existing systems. Huge data lags in legacy platforms, and fragmented and disparate systems with patchwork processes and silos, were holding them back and making it difficult to train employees on new technology (13%).

This situation was summed up by a major hospitality organization's SVP of Operations: "Underfunding of technology and undercapitalization of people have led to capability gaps and poor integration. We have sophisticated tools (ERP and CRM) but they are siloed, underutilized, or simply unused."

Many C-suite execs faced fall out from merger and acquisition (M&A) programs. Within the hotel sector in particular, growth through brand acquisitions is generally viewed as more efficient than growth by organic development. Consequently, there has been an escalation in M&A activity in recent years, as illustrated by the Marriott International/Starwood Hotels & Resorts Worldwide combination and the AccorHotels/Fairmont Hotels & Resorts combination.

M&A activity creates complex challenges integrating multiple operating platforms and corporate cultures. Companies often end up with 'patchwork' infrastructure and fragmented customer-facing experiences, especially when it comes to booking and payments. A hospitality CTO describes the domino effect:

"Continuous acquisitions have left us in a state of constant flux – integrating, changing, and collapsing technology and infrastructure and striving for solidification."

The COVID-19 pandemic brought a seismic shift. Integration of digital platforms swung into the spotlight and, unsurprisingly, customers and their rapidly changing needs took center stage.

CHALLENGES DURING COVID-19

HEAD OF FUNCTION

- **69%** Digitalization and data integration
- **44%** Focus on the customer
- **19%** Focus on immediate business and service priorities

C-LEVEL

- **78%** Integration of digital platforms
- **22%** Data management challenges
- **11%** External support
- **11%** Commercial or business support

The biggest single challenge for functional heads during COVID-19 was not being set up for connected commerce - either to sell online, to run their businesses remotely, or to handle the complexity of multiple touchpoints.

More than two-thirds (69%) sought to integrate digital channels and data in order to create new operational models and customer touchpoints to sustain their business during office closures, staff isolation, premises lockdown and diminished physical footfall.

While the majority of businesses already had multiple digital platforms, in many cases these were run on separate platforms to their physical channels, which held them back from offering the 'joined-up' services essential to minimizing contact during the pandemic - e.g., retail 'click-and-collect' or food and beverage 'mobile-ordering and pick-up.'

"We simply weren't 'e-set up' for COVID-19," **one retail IT Director explains.** ***"Customers couldn't order online and then pick up curbside, which would have enabled our stores to still do business. There had been discussions, brainstorms and plans about the outdated back-end, but it took COVID-19 to put it on the front burner."***

Managing continuity while pivoting products and channels in line with COVID-19 demand was doubly difficult given the constraints on tech teams trying to patch together new digital systems and services remotely, and lack of training for customer-facing staff.

During this time, maintaining the customer base – and ensuring interactions at the point-of-sale (POS), check-in, order stations and sales desk were physically 'safe' – became a key focus for operational leaders.

Almost half (44%) switched their efforts directly to better understanding the customer. Prior to COVID-19 the marketing focus was on finding and targeting new customers. Identifying the most lucrative audiences and broadening their reach into new demographics like Millennials and Gen Z. During COVID-19, as footfall tumbled, it was about ensuring they could keep the customers they already had.

This meant finding new ways to engage, using technology to reduce physical 'touchpoints' to help shoppers and guests feel safe, e.g., contactless payments, ordering and check-ins, and secure eCommerce. As a result, we saw the rise of contactless and mobile payment and the widespread adoption of QR codes to facilitate easier touch-free mobile ordering and check-in.

But innovating isn't always easy. Insight from a Retail Director highlights: "Our biggest problem is mobilizing across virtual and physical channels, being able to use the same tokens, gateways and systems to seamlessly track and engage customers."

In line with this, senior management have had to change the investment conversation from 'staying ahead of the dominant competitor' to 'staying up to speed with the rapidly shifting needs of customers and staff.' But that has left one in five (19%) facing dilemmas about their business's immediate service priorities. A typical response from interviewees was: "Where do I focus capital investment if there is not the customer demand now – but it could escalate at any time?"

Across the retail and hospitality board, COVID-19 accelerated digital integration and payment innovation to the very top of the C-suite agenda.

More than three-quarters (78%) of C-level executives found this the most challenging aspect of the past six months. As America struggled to cope with the escalating pandemic, many organizations were held back by outdated legacy systems – from back-end financial systems to CRM and customer support.

Joining up POS across brands and property management systems were already issues pre-COVID-19. Managing a company to run 100% remotely and moving demand from bricks and mortar to web-based commerce impacted all business priorities. Having payment infrastructure and POS that could cope with new technologies like contactless and greater channel and brand connectivity became central to success – virtually overnight. COVID-19 also brought many more data management challenges, with over a fifth (22%) spending their energies in this area. Data became hugely important in managing disrupted supply chains more effectively, enabling faster speed of service and facilitating dynamic pricing.

Many businesses also wanted new data solutions such as QR codes for contactless check-in and payments. A common theme throughout was a feeling that the support infrastructure that underpinned their operations was lacking – from vendor SLAs to insurance to continuity of service.

The challenges experienced over the last 12 months are creating new opportunities for tech investment as retail and hospitality organization re-evaluate what's really important.

Underpinning this is the recognition that better use of 'big data' - and real-time insight – is now vital to maintain operations, respond to rapid change and support growth.

USE OF DATA

- **44%** Perceive value has become more important
- **38%** Are combining data sources
- **25%** Feel current use of customer data is not effective
- **19%** Analyzing changes in shopping behavior
- **13%** Existing data only applicable to physical business

The challenges experienced over the last 12 months are creating new opportunities for tech investment as retail and hospitality organizations re-evaluate what's really important.

Leaders – both before and during the pandemic – were hungry for new insight to help them identify trends and anticipate needs. Whether determining customer/guest behavior to optimize loyalty, offers and customer preferences or boosting efficiency through real-time analysis and stock control.

A big challenge for both retail and hospitality is how to use digital downstream, i.e., capturing data in digital channels and using it to support brick-and-mortar customer touchpoints. Despite most businesses claiming to be multi-channel, the reality is that many physical and virtual platforms are not yet fully integrated and valuable data is trapped in silos. For example, more than a tenth (13%) of respondents are only able to access data from their physical businesses.

COVID-19 has undoubtedly intensified demand for better ways to capture and use data in real time, to allow a faster response to fluctuating conditions.

Two in five (38%) are now combining data sources while a fifth (19%) have used it throughout the pandemic to analyze changes in shopping behavior.

IMPACT ON TECH INVESTMENT

40% Aim to reduce business or operational silos

40% Reprioritize immediate business and customer needs

20% Will change priorities completely

10% Streamline processes

10% Plan for similar events in the future

However, while 44% of retail and hospitality leaders perceive the value of their data has become more important, a high proportion (25%) feel that their current use of data is ineffective. There is clearly still much work to be done, even in the largest of organizations with the biggest of tech budgets.

Leaders are already reshaping their data and vendor strategies, to optimize recovery.

Realizing that connecting data across their operations is key, 40% are seeking to remove customer-facing revenue and business silos. By making transactional, stock and customer data easier to share, they know they can increase its value and their competitive edge.

Many are also aware that past priorities were too heavily influenced by M&A and competitor activity. A fifth (20%) say they will now change their business priorities completely and 40% aim to reprioritize immediate business and customer needs.

A few will take the opportunity to streamline their processes, with 10% planning to reduce the number of contractors – potentially consolidating their vendor base to those that offer the most value, the most complete solutions and/or the deepest expertise.

Surprisingly, only 10% intend to plan for future, similar events to those of the past six months. This suggests that many of the tech changes implemented in the past six months will remain in place, becoming part of the new working practice and infrastructure as retailers and hospitality businesses move forward and so providing some degree of built-in readiness should another incident occur.

Despite most businesses claiming to be multi-channel, the reality is that many physical & virtual platforms are not yet fully integrated and valuable data is trapped in silos.

Key Takeaways

- Tech investment vision and direction remains a top priority for all decision makers.
- Insightful data is key to managing change, responding to disruption and planning for the future.
- Smashing internal silos and building omni-channel touchpoints is now business-critical.
- Re-energizing customer engagement and vendor relationships will accelerate recovery.

Return on Investment (ROI) and Value

In the first quarter of 2020, there was no single 'recognized' approach to determining long-term return on tech investment. It was clear that measurement of 'true value' was hard to establish, even where pilot cases existed.

ROI Priorities Pre-COVID-19

- **45%** Driving long-term value
- **30%** Meeting customer needs (speed, convenience, access)
- **15%** Internal efficiencies
- **10%** Changing business needs
- **5%** Change in vendor priorities

Retailer ROI measurement was not very sophisticated, often based on sales and profit uplift. Meanwhile, hospitality leaders struggled with ROI visibility and what 'business value' actually means. For some franchise businesses, the focus on P&L was roadblocking innovation.

For most retailers a positive impact on revenue and profit – from acquisition, conversion, retention, uplift in average order value (AOV), or sales frequency and reduced costs – was the most common benchmark for ROI.

"We look at how every decision affects our sales, asking: Does this have a direct impact on our top line? We basically develop the reporting around that," says the CEO of a leading retailer. This trend was further reinforced by the COO of a U.S. retail chain, "We aim for a 10% ROI based on cost of goods and sales revenue. It's really not anything that's too technical."

Other high-traffic outlets, such as restaurants, also perceived value in the same way, especially in relation to customer-facing tech and marketing spend. The VP of Operations and Strategy in a popular restaurant group explains: "We estimate ROI through increase in adoption, year on year. We look at the impact of push initiatives and our mobile app on customer retention and incremental behavior. We also consider cost savings, using apps to board customers to our loyalty initiatives rather than paper forms. Where we have data to show uptake, we are able to add other third-party savings into the ROI mix, e.g., through OpenTable."

Where franchises were being measured purely on their financial performance, the focus on driving a healthy P&L was in some cases holding them back, preventing them from securing investment in new technologies and software that could keep them ahead of the curve.

Almost half of respondents (45%) considered their tech investment as having a long-term value. Where it involved changes to infrastructure or hardware across physical estates, they expected it to take several years to recoup. This could be because legacy systems traditionally had a long shelf life with returns often calculated over 5-10 year time frames.

For almost a third (30%), the value emphasis was on meeting customer needs and expectations and improving metrics around sales uplift, satisfaction, and service speed (throughput). That said, decision-makers in hospitality were having difficulty in analyzing the long-term impact of their investments. Often this was due to lack of insight into the customer journey and the inability to put accurate figures around 'lost opportunities' if they didn't invest.

Indeed, poor visibility of 'value' made it more difficult for them to secure investment commitment from stakeholders. As one hotel group's VP of Operations confirms: "It's less about finding a solution that works, and more about how do we convince hotel owners that adding costs to a hotel that's already operating is worth it? Hospitality follows trends; we don't lead them."

Restaurants are also hungry for data that would help them overcome this. One restaurant group CMO sums it up: "For our entire industry (restaurants), the ability to track the customer journey and attribute a sale to a marketing action or item has been elusive. Technology that allows us to have that kind of attribution would be highly valuable."

On a positive note, there was a growing trend toward recognizing the value of technology in addressing changing business needs, with 10% using this as a factor in determining ROI.

Perceptions of 'value' across business functions had grown during 2019, fueled by investment in data management and increased support from business leadership. So, at the start of 2020, many businesses were looking to unify their digital platforms in order to reduce silos and create more efficient operations.

This is reflected in feedback from a hospitality CMO: "Our senior leadership team are all trying to operate the business and drive near-term results while simultaneously trying to lay down a foundation that will support sustainable growth. I believe that shared infrastructure lowers costs, op ex and cap ex. You have fewer expert resources for program administration, but it's easier and faster to share best practices across the entire global organization."

During COVID-19, the spotlight remains fixed on driving long-term value, but the pandemic sales drain has recalibrated time frames. In addition, the value emphasis has switched from revenue generation to performance optimization and preparing for the return of demand.

ROI Priorities During COVID-19

52% Driving long-term value

38% Meeting customer needs (speed, convenience, access)

29% Changing business needs

19% Internal efficiencies

15% Change in vendor priorities

The impact of the pandemic on cash flow means organizations are seeking a much faster ROI on any new investments while time frames for existing 'long-lead legacy platforms' are being pushed further out.

With so much short-term uncertainty, the focus on long-term value has actually risen, with 52% still looking to reap rewards at a later date. However, reduced revenue has eaten into cash reserves so the drive for tangible return is more urgent than ever.

Investors are becoming more discerning, demanding and hungry for tangible returns beyond sales volume and value, so new investments are expected to 'pay-back' faster and be farther reaching – in terms of benefits.

A hospitality CTO describes this shifting outlook:

"While sales upturn always trumps cost savings, COVID-19 has shifted the emphasis. In many areas, sales are just not there, so cost savings (streamlining and better performance) are much more attractive and are receiving higher investment than before. Not only that, but they also help us prepare for better service when sales come back, which will help us to recover faster."

This view is supported in retail too. "When we deploy assets and resources on projects, what we now want is the best and most profitable use of our time and money," says a retail COO. "During COVID-19, it's balancing the idea of hedging against a bankruptcy with trying to grow sales and maintain market position while holding onto cash for longer."

To achieve these goals, business leaders are also looking to build long-term relationships with the right vendors. As part of their selection

criteria, they are no longer looking at ROI from a purely transactional lens but want more clarity on quantifying what 'missed opportunity' looks like, i.e., "what will be the cost to my business if I don't do this?"

Why are they moving away from transaction volumes as a basis for vendor ROI? For one restaurant and hospitality CIO it is clear:

"Since COVID-19, more than 50% of our stores are closed. Customer behavior has changed. Vendors that are still basing proposals on transaction counts are no longer attractive. Although the cost today will be less, once we are through COVID-19 and demand picks up, we will face a significant increase in fees."

It goes without saying that meeting customers' needs remains a primary goal for all players, but even more so during COVID-19 when there are fewer opportunities to engage and failing to respond to consumer fears, constraints and sales barriers could shut them out completely.

There has been a rise in focus on customers, with two in five (38%) now using this to calibrate their tech investment.

The same customer satisfaction metrics are still being applied but we are now seeing COVID-19 becoming a catalyst for eCommerce (retail), contactless, and mobile tech spend as organizations seek to reduce health risks in physical locations and retain business through digital channels, hybrid and curbside services.

"It's not a case of ROI; it's a case of if we don't do it what will we lose?" affirms a retail CEO. "With COVID-19 we have to make 'touchpoints' safe for customers or they won't use them. Putting an ROI to IT is sometimes more about looking at the downside risk of not doing it, and looking at it from a competitive standpoint."

The pandemic led many to fast-track touchpoint innovation. 'Speed of response' became a core value factor.

Retailers, hotel groups and restaurants are increasingly buying hardware and software 'as a service' to speed their journey. Some forward-thinking organizations have been able to reap new value from existing investments, allowing them to respond more rapidly to emerging situations as they arise.

The experience of a hotel and restaurant CIO reflects this: "We honestly feel that we have taken up innovations that would have otherwise taken years down to months. Before COVID-19, we employed middleware to reduce our dependence on POS. Following COVID-19, we were able to use this to deploy a lot of new technologies like contactless very quickly."

COVID-19 has brought home the need to deliver short-term operational value for businesses as they struggle to cope with new demands, fluctuating supply chains and radically different business models.

There is now three times the focus on measuring ROI in terms of meeting changing business needs (29%) than at the start of the year. Much of this reflects the shifting focus on cost savings and back office rather than sales and attitudes, and from profit generation towards cash flow management. At the same time, one in five (19%) turn their focus to business or functional impact. This may have something to do with the need to operate business functions and maintain services remotely through decentralized and shared resources.

Indeed, COVID-19 has driven internal factors up the ROI agenda and allowed value to be determined to a greater extent from better risk management (10%), better utilization of frozen or weakened budgets (10%) and ability to overcome implementation barriers (5%).

There is no doubt that having better access to analytics and real-time data has helped many businesses to recalibrate their value models. "COVID-19 absolutely accelerated the need to track and make sense of all of the data that we are getting and generate ROI from that is even more paramount within the company," says a Senior Director of Shared IT Services for an international hotel chain. "For years, this has lacked investment. Now, all of a sudden, it is at the forefront of all the conversations. CEOs know that, if they don't, they are going to fall further behind."

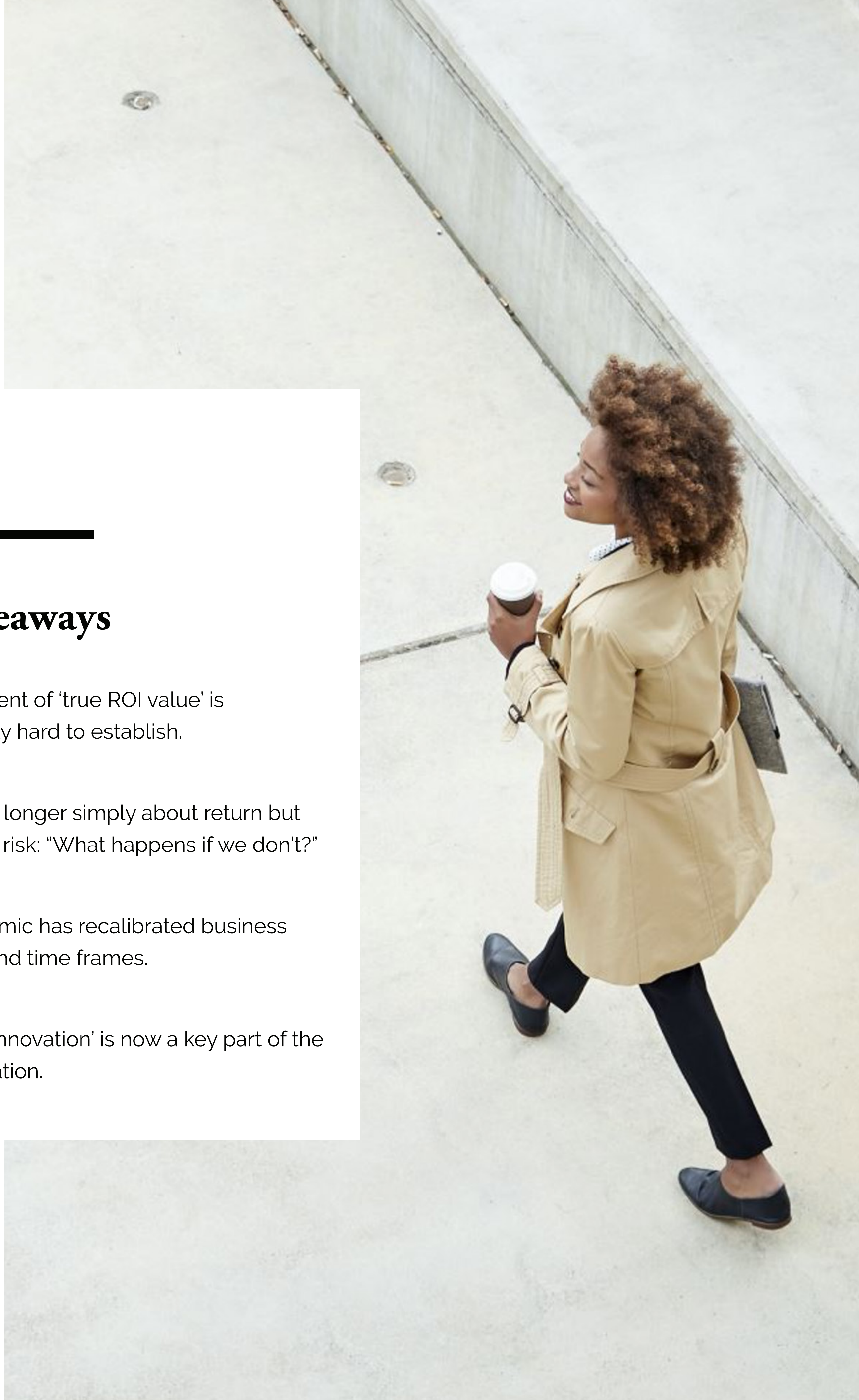
The pandemic has changed how businesses value vendors. As tech accelerates they need to recoup ROI faster – that means getting better at establishing metrics and ensuring suppliers can deliver.

A change in vendor priorities is now part of the ROI mix for 15% of respondents. And it's not just reassessing transactional volume agreements. There has also been an increase in demand for greater access to supply chain and the provision of flexibility of costs. Combined with a desire for faster time-to-market for solutions, this is tipping the balance from large global end-to-end IT suppliers in favor of new, challenger vendors where the 'risk factor' is being offset against faster implementation and return.

This approach is backed up by a restaurant IT Director:

"COVID-19 has forced risk onto businesses who maybe have been risk-averse before. The reason we're skating the decision to implement solutions from third party start-ups is that we need to make things happen pretty fast to bring some of those digital offerings over."

Vendors' speed of implementation resonates with many, including this retail IT Director: "From a technology standpoint, we need to support the business by saying 'No, don't change your business financial model; let's get you some help first and do some things really quickly for you.' The challenge now is to deliver to the business early in 2021."



Key Takeaways

- Measurement of ‘true ROI value’ is increasingly hard to establish.
- Value is no longer simply about return but also about risk: “What happens if we don’t?”
- The pandemic has recalibrated business priorities and time frames.
- ‘Speed of innovation’ is now a key part of the value equation.

Stakeholder Expectations

Retail and Hospitality Key Stakeholders and Their Requirements

INTERNAL

Business leaders and investors

Innovative business models that build competitive advantage

Franchisees

Significant impact on bottom line and profit margins

Functional heads

Use cases that create growth opportunity, overcome threats, and smooth compliance

Marketing and sales teams

Increase loyalty of existing customers and acquire new ones

Customer-facing employees

Make their jobs easier, automating processes, so they can deliver service faster and with less effort

EXTERNAL

Customers

Faster, better, safe and more convenient experiences and interactions that leave them feeling good and wanting more

Suppliers

Significant impact on a profitable and valued long-term relationship with the investment and support they need to deliver

Regulators

Secure businesses that maintain standards and safeguard customers

As well as reimagining the consumer experience, big-ticket data investment must now meet a myriad of multi-dimensional and interconnected internal and external stakeholders' needs.

To deal with new challenges, constraints and pressures, the nature of relationships with technology vendors an attitudes to risk have changed.

For many, it has strengthened their connection with existing tech providers, turning them from suppliers to partners...

At the start of 2020, data-commerce decisions were predominantly driven by C-level stakeholders, who were risk-averse and took a conservative approach to vendor selection and management.

Real time data began democratizing planning and decision making, allowing centralized functions to be more holistic and P&L centers and franchises to have more control.

Importantly, we saw the rise of ecosystems and competition as brands started to exploit synergies to build better end-to-end experiences and loyalty loops for the end consumer. While the primary decision maker varied depending on the size and type of organization, investment projects were often initiated and signed off by the C-suite (CEO, CFO, COO, VP of IT) or those responsible for the P&L (e.g. individual franchise or store/venue owners). Vendors were typically selected through formal RFP processes, supported by internal processes to assess ROI and functional committees to establish the business case and implement projects.

Vendor selection was characteristically conservative, with most C-players reluctant to take risks. Heads of functions tended to make choices from a specific repertoire of vendors based on their own knowledge or experience.

It was common to work with vendors for product development, to gain additional IT skills and to help shape competitive tech vision and strategy. Implementing business-as-usual initiatives and larger business leaps or projects was dependent on existing technology stacks, competitive requirements, or a tangible business/value case.

In some cases, where tech investment is particularly large, potentially disruptive, or involves a large number of stakeholders, organizations employ external business consultants to initiate, shortlist, or manage the proposal and implementation processes. This helps to spread or reduce risk, resources and effort.

This approach is reinforced by a leading hotel group's Head of Operations:

"We use the big consulting houses to help us understand the market better. To determine the best way to manage technology debt and long-term technology maintenance. And prevent us from getting bogged down in just keeping the lights on with our huge technology ecosystem. We try to optimize their input, so we have more dollars to invest in new strategic capabilities. There is a fine balancing act to this."

Managing internal stakeholder needs was vital for those implementing new data-commerce projects – especially those involving cross-team working across multiple functions and legacy systems and under time constraints.

In some cases, projects required specific skill sets to help optimize core service and sales functions. Keeping internal stakeholders happy and homegrown talent and knowledge onboard was a priority for many. New KPIs and bonus structures were often introduced to measure, incentivize and reward staff.

As one retail IT Director confirms: "Last year we moved ERP systems. It included HR implementation, a financial system implementation, an inventory system implementatio and merchandising – all within nine months. Part of the challenge was making sure that the people and resources managing the old legacy system were able to transition to the new system."

As legislative frameworks become more complex, organizations expect vendors to aid compliance and help them meet increasingly stringent regulatory demands.

Across the industry, escalating use of data, connectivity and AI has also increased the influence and scope of regulators and industry bodies. From Know Your Customer (KYC), Anti Money Laundering (AML), PCI and EMV to data protection – on a federal and international level, they are ramping up mandates, requirements and practices designed to safeguard businesses, customers and their personal and payment data.

COVID-19 has moved the vendor relationship from supplier to partner. At the same time, it has increased stakeholder appetite for rapid innovation, creating new openings for niche suppliers and start-ups.

The pandemic has had a significant impact on the entire retail and hospitality ecosystem. To deal with new challenges, constraints and pressures, the nature of relationships with technology vendors and attitudes to risk have changed.

For many, it has strengthened their connection with existing tech providers, turning them from suppliers to partners as customers lean on them for advice and guidance, and to help them manage their investments through these difficult times.

This has seen a reduction in external management consultancy spend, and a move towards hybrid relationships (consultancy and solutions) with software and hardware vendors to support gaps in their in-house teams – for design, project management, training and compliance.

In many cases, this has allowed retail and hospitality leaders to maintain momentum on specific projects that are essential to

keep operations running; for example digital commerce, contactless payments and unified business intelligence (crucial for decentralized and remote working).

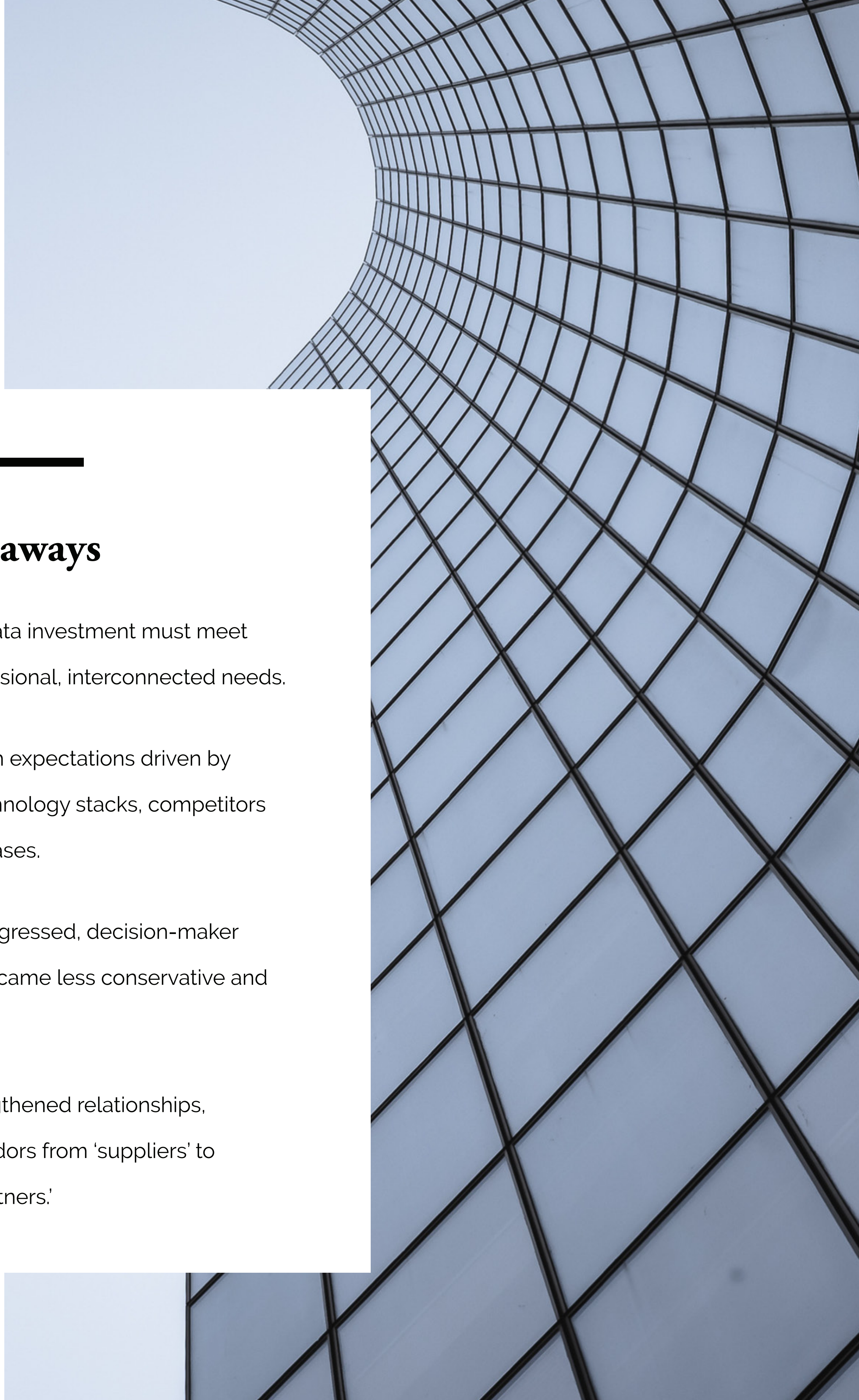
COVID-19 has also changed the vendor mix and traditional attitudes to risk. While retailers and hospitality organizations are still working with longstanding vendors, the need to innovate at speed and bolster internal IT resources, is overriding their innate conservatism and opening the door to new retail and hospitality tech providers.

What these lack in established brand appeal and long-term relationships, they make up for by their ability to disrupt, challenge and innovate at speed or to plug solutions and capability gaps without a large financial outlay.

Allowing access to uninhibited and cost-effective tech innovation, they also provide franchise businesses with a fast, low-cost route to smash P&L-instilled innovation roadblocks.

But it is clear that the worry of risk is still there. A retail COO concurs:

"We were working on an initiative to implement loss prevention and fraud over the internet. The large vendors didn't have a customized solution, so we had to find an alternative. A new supplier had this great software. The worry for us is will they be able to survive COVID-19, still maintain and update the product and keep it valuable?"



Key Takeaways

- Big ticket data investment must meet multi-dimensional, interconnected needs.
- Internal tech expectations driven by existing technology stacks, competitors and value cases.
- As 2020 progressed, decision-maker attitudes became less conservative and risk-averse.
- Crisis strengthened relationships, moving vendors from ‘suppliers’ to ‘valued -partners.’

Compliance, Ethics and Loyalty

Building trust has become a business-critical goal to be pursued in all consumer transactions.

Today's business leaders are constantly evaluating ethics around products, services, and the decisions they make, whether that's managing data for loyalty applications, building a partner ecosystem, training employees, or using disruptive technologies.

At the same time, state, national and international regulation and standards such as General Data Protection Regulation (GDPR), Know Your Customer (KYC), Anti-Money Laundering (AML), Telephone Consumer Protection Act (TCPA), and PCI are also exacting commercial pressures that are governing the direction of real time customer journey engagement.

In 2020, it was evident that retail and hospitality leaders were treading a fine line between customer empowerment and customer intrusion. On one hand meeting customer expectation for hyper-personalization and on the other safeguarding data, respecting privacy and staying compliant.

Companies were eager to use technology to enhance the customer journey; to understand the lifetime value of a customer and how loyalty programs could deliver a stronger ROI. But they were also conscious that benefits would be lost if they appear too 'pushy' or intrusive to customers.

It is a constant dilemma for retailers, confirms a Global Head of Data Analytics and eCommerce: "We want to directly market and customize the experience for the customer but can't become like 'Big Brother', individuals can be offended if you know too much data about them."

Technology-Enhanced Customer Journey

- In-venue sensors
- Geolocation tracker
- AI assistant
- Push notifications
- Mobile app
- E-rewards
- Redemption codes
- Tokenization & tracking

Delivers speed, relevance and "in-the-moment" engagement.

Can also lead to intrusive activations, loss of data privacy and issues with third party access to data.

The bigger the customer's digital footprint, the more opportunity there is for gathering and analyzing metadata. This has seen the industry swamped with new start-up retail and hospitality tech businesses that focus on customer analytics and optimization.

But while they are hungry for more 'of the right' customer data, organizations are not prepared to go beyond what they understand as ethical. "We are definitely not an intrusive brand," reinforces a retail Head of Digital. "We are not doing anything along the lines of what I think would encroach upon anything that was unethical. I don't think I would work for the company if we did."

There are undoubtedly opportunities to 'game play the system'l – especially when it comes to sharing pockets of data within groups and across multiple locations. However, leaders are aware that this can potentially backfire and leave ethics compromised.

According to a COO of a major restaurant group: "We have 1200 stores in our portfolio across nine different chains or concepts with a lot of overlap between brands. It would be easy to capitalize on this and try to cross-sell. However, we don't because it would be unethical – and illegal – to start sending unsolicited offers from one brand customer to another without their consent."

Safeguarding sensitive data and protecting businesses from ransomware is a 'must' as businesses seek to avoid financial and reputational loss. Compliance is seen as the principal route to maintaining security across complex estates, and vendors are expected to smooth the way.

"Our business is 98% electronic payment. There is a big demand for mobile scan and go payment; we have introduced it but worry about security," states the VP of Operations for a leading hospitality and leisure group.

"We want it to be as easy as possible for people to pay us - on their phone, their iPad, their browser, walk into any resort and pay, call the call center and pay. To do this we need to be able to identify them; control the information; and record transactions all while redacting the information so we are not putting ourselves at risk from breaching GDPR and PCI."

As retail and hospitality organizations collect more and more data, they face an increasingly complex internal IT environment. Some can have as many as 50 different information systems (spreadsheets, customer relationship management [CRM], data warehouses, data lakes, mainframe applications, point-of-sale, cloud applications, email servers, etc.) that hold consumer data.

For large-scale, industry-leading companies, trying to connect and protect 'big data' across multiple systems, different channels and geographical locations can be a tall order. Increasingly they rely on third parties to ensure activities such as loyalty, payments and other sensitive transactions are compliant.

The biggest challenge, though, is maintaining customer trust, as they seek to extract data from multiple channels. On the one hand data gathering has to be seamless and invisible to reduce friction; on the other their intention and use have to be clear and totally transparent .

During the pandemic, the switch to digital channels and contactless technology has thrust data management and security to the forefront. With IT-support teams understaffed or working remotely, businesses were looking to vendors to help them remain compliant with minimal effort and resources.

Encrypted data, tokenization, and transparency of process became de facto as retailers and hospitality leaders sought the development of secure mechanisms for customers to transact safely.

Many are also anxious to avoid anything that could risk their reputation during COVID-19 disruption and subsequently reduce their ability to 'bounce back' fast, once trading restrictions are lifted.

"We have heard a lot of stories about large companies being compromised and we definitely don't want to be in the news for that reason," says a hospitality CTO. "We now encrypt all credit card and personal identity information (PII). Nowhere in our system do we store sensitive payment data, all we store are hashtag/tokens. If our database gets compromised there is nothing that can be gained."

And there have been other operational benefits for those that have embraced certified Point-to-Point Encryption (P2PE). The CIO of a US-wide restaurant group offers a great example: "Our PCI compliance process used to take several months. Working with a Validated P2PE encryption enabler, we have reduced our scope from 300 requirements to 30, making it much more manageable for our staff."
On the downside, many organizations have been held back by concerns over PCI and security as their customers and staff switched to wireless devices to facilitate faster and more efficient ordering, check-ins, collections, purchases, and payment during COVID-19.

A Senior Director, IT Services, in the hotel sector confirms, "What we really needed were 'commodity' wireless devices that could be used by multiple staff in different locations in our properties – whether a restaurant or bar, housekeeping, concierge or customer services. But we were concerned about PCI, security, and connecting it back into the point-of-sale system."

COVID-19 has shaken businesses from complacency around loyalty and referrals. Brand allegiance is no longer a given and must evolve in line with new behaviors, attitudes and ethical considerations.

The reduction in customer engagement, sales volume and value during COVID-19 is making brands rethink habitual and outdated approaches to loyalty.

"Traditional loyalty is out of the window. Our customers still want to buy our products, they just don't want to go in-store, so they pick up curbside, which is a new business model for us. But how then do you try to market to that customer so that they buy something else? Breaking away from the idea of 'standard buying habits' has been a huge struggle," states a retail COO.

Retail and hospitality organizations are looking for new ways to bring customer loyalty into every interaction. Not simply asking customers to sign up to a static loyalty or referral program but loading it with more targeted and personalized incentives and doing whatever it takes to ensure both short-and long-term customer retention.

The use of encryption and tokens to aid compliance is providing them with the tools to recognize and track individual customer journeys and enable loyalty value to be transportable across brands, locations, channels and even between other synergistic retail and hospitality partners.

Key Takeaways

- Customer trust is essential in all retail and hospitality transactions.
- Customer empowerment vs. customer intrusion is a continual dilemma.
- Encryption and tokenization are now de facto for security AND building loyalty ecosystems.
- Regulations are a cornerstone of trust, and vendors are the new ‘guardians of compliance.’

CONCLUSION:

Looking ahead to the transformation of the U.S. economy

COVID-19 continues to impact business throughout the U.S. It remains an ever-present cloud over sales forecasts and investment budgets. Every aspect of retail and hospitality has felt its ramifications. And, with the exception of online grocery and fast food retailers, many are now fighting for survival.

There is now more urgency to explore the opportunities presented by data-commerce. If we have learned one thing from the global pandemic, it is that those who were unable to exploit connected commerce – to sell online, adapt services or run operational parts of their business remotely – have been at a significant disadvantage.

The winners will be those that can exit the starting gates to recovery the fastest with their data and commerce platforms fit, healthy and recalibrated for future demand.

Five key learning points from the leadership study:

1. Leaders are depending on third-party vendors as 'business consultants' and 'guardians of reputation' to democratize data, drive stakeholder value and cope with compliance and ethical complexity.
2. Goals for data-commerce are driven by both external and internal aspirations:
    - External – bringing customer-facing services to life, extending digital and contactless touchpoints, increasing market share and competitive advantage.
    - Internal – empowering employees and plugging capability gaps, smarter and remote working, smashing operational silos, replacing patchwork legacy, reducing cost and increasing efficiency.
3. Challenges revolve around optimizing/evolving legacy infrastructure and systems in line with shifting customer expectations to deliver seamless, connected, engaging and secure experiences.
4. Leaders recognize that big-data and real-time insight are now vital to maintain operations, respond to rapid change, support growth and plan for the future. Inability to access them can leave them wearing blinders to opportunity and sightless to risk.
5. Businesses understand that they have to change their focus to 'the customer' but in many cases are being held back by poor visibility across channels, IT complexity, legacy, culture and uncertainty.

Five positive ways overcoming adversity has strengthened retail and hospitality advantage:

1. The desire to keep customers safe has driven the use of contactless technologies including mobile wallet acceptance and QR codes for info, check-in, pricing and payment.

2. Organizations have had to adapt fast – innovating business models, supply chains, goods and services, integrating digital and opening the door to self-service options and curbside collections.

3. Leaders have broadened their thinking around value, moving measurement beyond 'what competitors are doing' and sales/revenue return to business and customer needs and making operations more efficient.

4. New relationships within a broader ecosystem are helping to drive ROI faster than ever before as attitudes to 'risk' change, and businesses seek specialized tech support from new disruptors and challengers.

5. Tech vendors are working even harder to secure investment, that means providing more tangible and faster ROI, more compelling use cases, and deeper, richer consultative services.

It is time to focus on recovery, innovation and transformation. By making the right investment decisions now, retail and hospitality can emerge from the ashes, renewed and re-energized for the decade ahead.

Demand is set to explode once social, entertainment and shopping restrictions are lifted. Retail and hospitality will be the first to benefit and can expect an immediate upturn as consumers seek to make up for lost ground, creating unprecedented sales spikes around travel, shopping, dining out, sports, music and live events.

The road to recovery will be hard, but it is clear from the findings of our study that much headway has already been made. Those organizations that have demonstrated leadership and continued to invest in payment and data technology during 2020 will be best placed to capture the green shoots of growth as they emerge.

Businesses of all sizes can rise and build a brighter future. But they can't do it on their own.

Today is the era of partnerships.

It will require insight, expertise and the fast-to-market solutions to help them accelerate recovery. Choosing the right investment partners and vendors will be crucial to success.

Discover how J.P. Morgan and FreedomPay can help.

About J.P. Morgan

J.P. Morgan's Wholesale Payments business combines the firm's treasury services, trade, card and merchant services capabilities, and our vision is to enable clients to pay anyone, in any currency, anywhere in the world. Focused on helping clients navigate changing environments, digital transformation and evolving customer expectations, J.P. Morgan processes over $6 trillion payments daily, is the world's top USD clearer, and was the first bank to offer real-time payments across USD, GBP, and EUR.

With annual technology investment consistently above $10 billion, J.P. Morgan has a history of innovating at scale, bringing agility and a co-creation mindset to the solutions we offer. By thinking digital first, our capabilities are designed for ease-of-use, helping reduce the complexity of managing cross-border payments with practical, customized tools. We prioritize the client experience in everything we do, underpinned by robust cybersecurity and controls, to deliver a unified service on globally consistent platforms, wherever our clients operate.

About FreedomPay

FreedomPay's Next Level Commerce™ platform transforms existing payment systems and processes from legacy to leading edge. As the premier choice for many of the largest companies across the globe in retail, hospitality, lodging, gaming, sports and entertainment, food service, education, healthcare, and financial services, FreedomPay's technology has been purposely built to deliver rock-solid performance in the highly complex environment of global commerce. The company maintains a world-class security environment and was first to earn the coveted validation by the PCI Security Standards Council against Point-to-Point Encryption (P2PE/EMV) standard in North America. FreedomPay's robust solutions across payments, security, identity, and data analytics are available in-store, online and on-mobile and are supported by rapid API adoption. The award-winning FreedomPay Commerce Platform operates on a single, unified technology stack across multiple continents, allowing enterprises to deliver an innovative Next Level experience on a global scale. www.freedompay.com

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