



Green Dot Product Innovation Suffers In Battle With Activist Investor

Venmo Flies Past Green Dot By Beta Testing "Pay With Venmo"

31 May 2016 By: Michael Moeser

Last week we saw San Francisco-based Harvest Capital Strategies take on Green Dot's CEO in an epic boardroom showdown that was full of sparks and excitement. Since January 2016 Harvest Capital had been engaging in a very public and political campaign to remove Steve Streit as CEO and chairman of the board. Harvest was also seeking removal of two additional board members, Michael Moritz (current chairman of VC firm, Sequoia Capital) and Timothy Greenleaf (VC firm, Fairmont Capital). Hours before the vote, Messrs. Moritz and Greenleaf resigned – apparently they saw the writing on the wall. Shareholders voted to include two of Harvest's proposed board members, while Steve Streit was able to garner enough votes to remain on the board.

Now that the boardroom proxy fight is finally over, it's time for the former radio disc jockey and current Green Dot CEO to start serving up some new product hits. Real blockbuster products are needed to get the company back on the growth fast track and the stock returning to previous highs. For a company that claims to have invented the open loop prepaid card, it has been short on new innovation for the last few years. It has used acquisitions of Account Now and Achieve Card (prepaid program managers) in 2015 and TPG (tax refund processor) in 2014 to drive new life back into the company.

Unfortunately, it has also had several public missteps that have caused the company to lose revenues and create some unhappy customers. Most notable examples include the discontinuation of the Money Pak reload product (costing the company millions) and the "less than smooth" switch to MasterCard Transaction Payment Services for card processing of its prepaid products, including the Green Dot-issued Walmart MoneyCard. As the switch to MasterCard occurred in early May, Walmart MoneyCard customers were unable to use their cards for several days, leaving many without access to the funds they had on their prepaid card. After these disasters and the board fight, it is clear that Green Dot has taken its eye off the ball, for some time, but that is history which needs to be left in the rear-view mirror.

Now is the time for Green Dot to re-invent itself as the prepaid leader with a hyper focus on enabling e-commerce purchases. While the challenges facing Green Dot today are much more complex than when it started out in the early 2000s, the changing retail landscape is presenting its biggest opportunity yet: explosive growth in e-commerce which should exceed \$600 billion in 2020 according to Javelin estimates.

An increasing amount of this e-commerce is being driven by the rapid adoption of smart phones and consumer willingness to use them for shopping. Social media has responded by installing buy buttons on Pinterest, Facebook, Twitter, etc., to make impulse shopping easier. Retailers have launched apps that allow them to have a stronger customer experience. And we have mobile wallets everywhere from Apple and Google to Chase and Walmart that allow us to pay at POS or within an app. Earlier this year Venmo began a beta test with the mobile ticket agent, Game Time, and the food delivery service, Munchery to use their "Pay with Venmo" service which has been built on its tremendous success in P2P payments.

Feeding into this e-commerce growth, Javelin research has uncovered that the top two spend categories for prepaid cards are to make online purchases (#1 for millennials and #2 for people over 35) and to buy groceries (#2 for millennials and #1 for people over 35). Since many prepaid card owners already have a debit or credit card, it is clear that prepaid cards represent a supplementary payment form. When asked why consumers buy prepaid cards, the top two reasons are to overcome security concerns when shopping online and for budgeting purposes.

For me it's clear that Green Dot has an open road to drive new product innovation to serve this growing mobile commerce market. The only question that remains in everyone's mind is: Can Steve Streit rise to the occasion and reinvent Green Dot? I guess it's time to let Steve show the world what he can do with a second chance.

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