

Financial Services and Strategy & Corporate Finance Practices

# The future of payments is frictionless—now more than ever

Amrita Ahuja, the CFO of Square, explains how the company's payment platform and services have helped small enterprises stay afloat during the COVID-19 crisis.



**Cash is king** when it comes to maintaining corporate liquidity. It is in a somewhat less prestigious position when it comes to fulfilling consumer-to-business transactions. The onset of the COVID-19 crisis and ongoing fears of infection have prompted consumers and businesses to rely more on digital and contactless payment options when buying and selling goods and services.<sup>1</sup>

McKinsey's Pooja Kumar and Roberta Fusaro recently sat down with Amrita Ahuja, the CFO of Square, a global provider of point-of-sale terminals and auxiliary equipment to small and medium-size businesses, to reflect on the changing market for payments software, hardware, and services. In this edited conversation, Ahuja explains how Square has supported small and medium-size companies during the crisis, describes new technologies that might affect the global payments industry, and shares her insights on what it means to be a CFO in the midst of a pandemic.

## On managing through crisis

**McKinsey:** How have the past few months been, and what's changed for Square as a result of the crisis?

**Amrita Ahuja:** We're taking it a day at a time. We serve merchants, who we call sellers, and individual consumers. And we know that this has been an incredibly trying time for everyone, where a lot of people's livelihoods have been in question. The first thing we did was focus on our employees and their health. We shut down our offices on March 2. We wanted to do right by our communities and do our part to halt the spread of the virus. We took an all-hands-on-deck approach to understand what was happening in our customers' businesses and what was happening in our own business. Every single day in March and April felt like a year, frankly, in terms of our understanding and how fast things were moving. We ran through scenarios, and asked ourselves, "OK, if the situation resembles a V, or

if things look like an L, or if it looks like a U, what does that mean for us and our ability to serve our various stakeholders, employees, customers, and investors?"

We've had to be fast and clear with our communications during a time in which there are still so many unknowns. It was important to own up to this uncertainty and yet not downplay the severity of the situation. We met far more frequently with the board than the typical quarterly cadence. We held an update call with [investment bankers and analysts] outside the typical earnings cadence. We suspended our formal guidance to Wall Street, but we actually shared more information about the real-time views that we were seeing in our business across a number of different metrics and geographies. And with employees, we had a far more frequent and transparent mode of communication. We were sending weekly email updates, we built comprehensive and regularly updated FAQs, we set up a Slack channel for questions, and we held biweekly virtual all-hands meetings. We didn't know everything, but we had a process for learning things over time and communicating them transparently. Ultimately, that has served us well, in terms of motivating our employees, serving our customers, and giving stakeholders a clear understanding of where we are as a business and how we are proceeding.

**McKinsey:** How do you think finance functions will change because of the crisis?

**Amrita Ahuja:** For one thing, the experience of teams working from home over the past couple of quarters—and probably for a few quarters more, at least—has emboldened many finance leaders to think about work, collaboration, and community-building differently. Finance functions will still need to bring people together physically and socially—to onboard employees, for instance, or when teams reach milestones on key projects, or when teams need to gather for all-hands meetings. But they

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<sup>1</sup> Philip Bruno, Olivier Denecker, and Marc Niederhorn, "Accelerating winds of change in global payments," October 1, 2020, McKinsey.com.

will also need to allow work to happen wherever employees feel most productive and creative, even if it's remote. Additionally, CFOs are thinking a lot more about digital transformation. We want processes, tools, systems that don't rely on the knowledge that's in any one person's brain. We want institutionalized processes and tools that enable the business to move faster, and we want them to be future-proof for any new products we may launch or new markets we may go after. We want our teams to focus more on creative work than manual work. I know I'm thinking a lot more about the investments we're making in such tools. I'm not alone; I've heard from other CFOs that COVID has helped accelerate their thinking on building out digital capabilities.

## On innovation in the payments market

**McKinsey:** Square targets small and medium-size businesses with its products and services. How have their needs changed because of COVID-19?

**Amrita Ahuja:** We offer entrepreneurs and merchants tools and services that allow them to successfully start up and then grow their businesses. It's a critical market because about 90 percent of businesses worldwide are small and medium-size companies, and they represent 50 percent of employment worldwide.<sup>2</sup> They account for a major portion of the job creation and economic development that happens worldwide, and recent government data show the fastest rates of growth for new starts than we have seen in a decade. We think that small and medium-size businesses—and these new starts—can really contribute to a strong recovery.

COVID-19 has accelerated some trends for these companies. For instance, we're seeing a dramatic rise in cashless businesses. In February 2020, about 5 percent of Square sellers were cashless in the United States. That rose to 13 percent in August 2020, and for a period in between, it actually went up to 23 percent. People are pivoting their

businesses toward safe ways to meet their buyers. Becoming cashless, and accepting cards, is a key piece of that. We're also seeing an increased need for omnichannel tools. What does omnichannel mean? It means being present—whether offline, online, or on mobile—to meet your buyer. Many establishments pre-COVID didn't have a burning platform to have an online or mobile presence. They do now. Our volumes related to online channels grew 50 percent in the second quarter to 25 percent of our virtual volume.

We're also seeing more vertical blending, as we call it, which really just refers to the entrepreneurial hustle: it's the high-end restaurant that can't serve customers during shelter-in-place scenarios, and they've now become a grocer. It's the bakery that's now selling bread and cookies online. Or the flower shop that's scheduling in-store visits using an appointments system that a hair salon might have used. Those are the kinds of entrepreneurial pivots companies are making to adapt to this new environment. And they're doing it quickly—what might've taken three years, we've seen happen in three months. That is something we think could have a lasting impact even post-COVID.

For all that change, however, some things do remain the same. Our customers have always valued speed and trust. The question for us is, what do speed and trust mean in this new context? Well, it means transparency and simplicity around things like fees and policies and how our customers work with our business. And it means giving customers fast access to their own funds or to a credit line. These are the things that matter to them now and always.

**McKinsey:** How would you say the overall payments market is changing?

**Amrita Ahuja:** There are two big themes that could dramatically change how commerce is conducted in the payments space over the next decade. One is around artificial intelligence [AI]

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<sup>2</sup>According to Investopedia, small and midsize enterprises (SMEs) are categorized as such when they maintain revenues, assets, ownership structure, or number of employees below certain thresholds that vary according to country.

and machine learning [ML], and the other is around cryptocurrency and blockchain. They're both incredibly nascent in how they're affecting society and commerce. Still, we want to experiment and learn. AI and ML, for instance, will enable companies to be more efficient with their employee bases and drive higher productivity. They will also enable a fintech company like Square to launch more digital products that support tasks that would have historically been handled with paper and pencil—for instance, digital forms that would have been faxed back and forth between a bank and a small business but now can be handled in a faster, simpler way that mitigates risk on both sides. And we're excited about the verifiability and transparency associated with blockchain and cryptocurrency. Crypto today is viewed as an asset, like gold, but down the road it has the potential to be a viable form of currency. There is a lot to be worked out, and it must be explored in a disciplined way, but we see attributes here for crypto to be disruptive in markets that need it most—in particular, where there is a lot of inflation, or where corruption is rampant with fiat currency.

**McKinsey:** Are specific product innovations emerging from Square—outside of or in the wake of COVID-19?

**Amrita Ahuja:** We know we are serving the little guys who often, frankly, don't have another option. So we remain focused on fast product innovation, like the on-demand-delivery, order-ahead, and pick-up options that have kept many of our customers in business during a really volatile time. People are using our Cash App to inbound stimulus funds or unemployment checks, or to send funds to friends or family members in need, or to facilitate social giving—online tipping or donations, for instance. Despite the turmoil, we're continuing to experiment and learn in a disciplined way. We've formed an independent open-source team called Square Crypto that we believe is going to help us explore and enhance the bitcoin landscape and the cryptocurrency landscape. We also launched the Cryptocurrency Open Patent Alliance, which is meant to benefit the broader market and drive innovation in the space. And more recently, we made

a \$50 million investment in bitcoin as a show of support to the community and our belief in the long-term sustainability of bitcoin.

## On social issues

**McKinsey:** What specific advice do you have for women leaders in this COVID-19 era?

**Amrita Ahuja:** First, it's important to continue to look for learning and growth opportunities. Remember, it's a career lattice not a career ladder, so don't count on taking a vertical path and trying to rise. That works for some people. But seeking out multiple perspectives helps you build relationships. It helps you build new muscles. It helps you flex your thinking. It helps you build empathy. And the companies that rotate their staff continually get fresh perspectives in different areas of the business.

Second, seek mentors. I have always been surprised at how generous people will be with their time when you share a direct question with them and if you actually give them something to chew on, whether it's a career move you're thinking of making or a scope expansion or a new project or even a struggle you've got at home. People respond well to prompts, and people want to give back. They want to see others succeed.

Third, advocate for yourself. This applies to the work you're doing and making sure it is appropriately visible, but it's also important for maintaining the boundaries you need to stay sane during these difficult times. Companies are trying hard to look out for their employees, but they're not going to be able to anticipate every single personal situation out there. So people need to talk frequently with their managers and teams about what they need. During the pandemic, my kids have been doing their schooling from home. I really need those first few hours in the morning to get them set up on their video calls with their workbooks. So I try to start my day a little bit later at Square, which sometimes means I'm working later into the night. But I am a much more loyal employee knowing that I have that flexibility. I am much more

focused knowing that I've been able to take care of things for my family. I advocated for myself, and the company responded in a positive way, enabling me to have that boundary.

We are really focusing on inclusiveness and diversity at Square. We have more than 14 affinity groups at the company aimed at keeping diverse voices at the company. The groups help the company feel smaller; people can gather with others facing similar questions and challenges, and they can advocate for themselves and their colleagues with a louder collective voice. The parents community group, for instance, can help us construct programs like short-term leave for people who need it. As we think about recruiting, we train hiring managers on the concept of unconscious bias, and we hold jam sessions with recruiters to find diverse candidates to bring in, including women and underrepresented minorities. We enforce the idea that, for every single role, we should be interviewing candidates from diverse backgrounds before making a hiring decision.

**McKinsey:** Square's mission statement talks about creating access for all. How has that mission informed the company's recent social-justice actions?

**Amrita Ahuja:** We recently announced that we're steering \$100 million in funds toward underserved communities. Over time, we've seen systemic disparities in how communities are served and in how underserved communities are not included in building financial wellness. That problem has only increased during COVID, by the way; many underserved communities have been hit disproportionately hard. In 2019, we had started a program where we invested deposits with community-development and financial institutions across the various US markets we serve. We were looking to expand that, so when we saw the impact of COVID on many of these underserved communities, we saw the potential to move \$100 million of our corporate treasuries to support and invest in them. We're excited to work with the various partners we have in this space to make sure that the money Square provides—via loans, community projects, investment projects, and deposits—gets into the hands of people who need it and will help build sustainable economic growth in these underserved communities. We plan to monitor our progress in these communities along with various success metrics, such as job growth and new business formation.

**Amrita Ahuja** is the CFO and treasurer of Square. **Pooja Kumar** is a partner in McKinsey's Philadelphia office.

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