Infinicept
Infinite Acceptance

Why Software Vendors Should Be Payment Facilitators

Don't miss out on this revenue opportunity

Business-to-business software providers are discovering new ways to improve and monetize their services and add millions in new revenue by becoming payment facilitators (PFs). These integrated software vendors (ISVs) sell a wide range of software, including accounting and billing systems, and specific vertical market applications for medical practice management, nonprofits, or hospitality solutions. These ISVs have an opportunity to capitalize on trends and generate new revenue streams by embedding payment acceptance into the software they provide to their clients.

ISVs who become PFs and extend frictionless boarding, simplified pricing, and a single point of support to submerchants will experience significant growth.

As they join this select group of high-performing, high-growth businesses such as Shopify, Stripe, and Square, several trends have become evident. This white paper explores the technology and the business trends leading independent software vendors to enter the payments business by leveraging the payment facilitator model. It addresses the fundamental definition of a payment facilitator as a new form of payments acceptance player, contrasting it against traditional models, and the multibillion-dollar market opportunity for ISVs. Case studies are provided, as well as a description of both retail and wholesale PF models. With a strong tailwind, this market is poised for significant growth.

Key Vertical Markets

According to PF consultancy Double Diamond Group, ISVs in key vertical markets will drive most of the growth in GPV. These market segments include: digital commerce, nonprofits; bill payment service providers; personal care, fitness, personal transportation, government, utilities, and health care software firms.

What Is a Payment Facilitator?

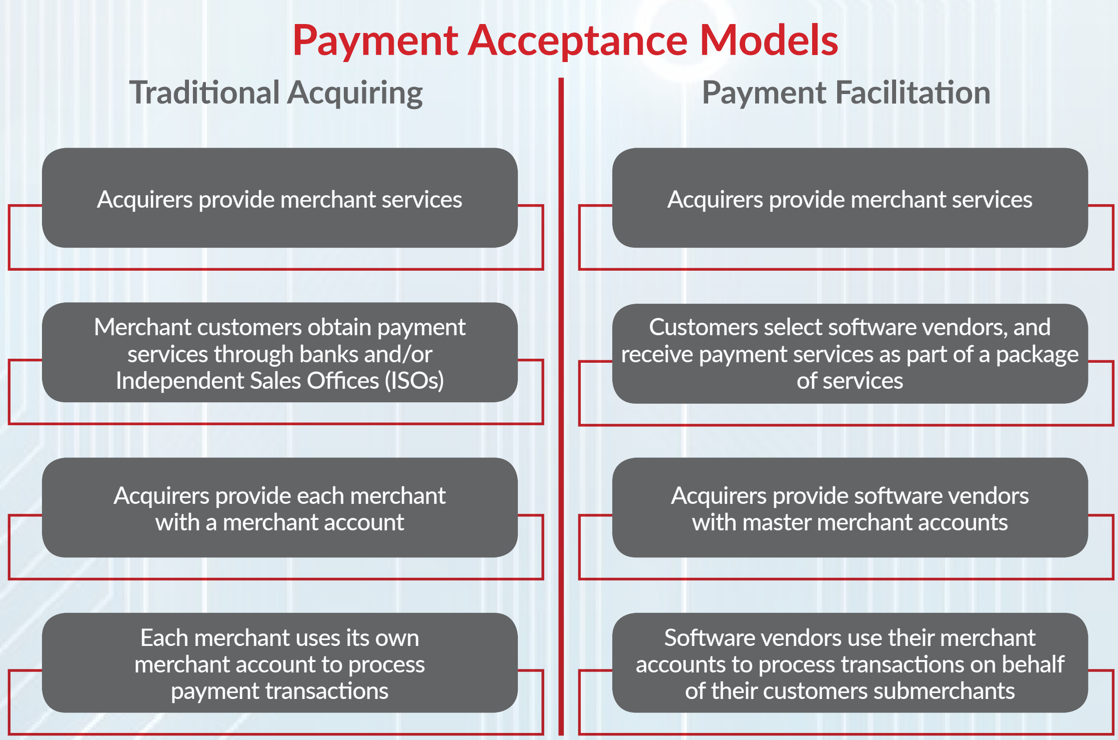
Traditionally, merchants have had relationships with merchant acquirers, which are mostly banks or bank-sponsored firms such as independent sales organizations (ISOs) that specialize in offering payment acceptance services.

Acquirers receive merchants' card transactions, pass them to the appropriate card networks for processing, and facilitate settlement of transactions between the merchants and the card-issuing banks.

In the payment facilitator (PF) model, an ISV establishes a payment acceptance account with an acquirer and then uses this account to accept payments on behalf of its clients, who are referred to as submerchants. Submerchants use the PF's merchant account to send transactions to the card networks via the PF's acquirer.

By becoming a PF, an ISV can fulfill much of the role of the merchant acquirer and add the associated revenue to its income stream. The acquirer benefits from having the ISV's volume processed through its services and compensates the ISV either through a revenue share paid back to the ISV or by providing the ISV a wholesale buy-rate on payment processing that the ISV can subsequently mark up when re-selling the service to its submerchants.

Figure 1: Traditional Acquiring vs. Payment Facilitation



Why Become a Payment Facilitator?

A major change is taking place in the way businesses accept payments. It is now easier than ever for software companies to monetize payments that are processed via their software. In fact, software companies can actually stand in for banks, taking on the payment processing role and associated revenue.

This will greatly benefit the users of the ISV's software. For merchants, having an integrated payment acceptance solution means they no longer need to source their payment services from a separate provider. It also means they can provide a more seamless customer experience, have lower risk, gain enhanced insight into their business performance, and build better, deeper, and longer-lasting relationships with their software providers.

At the same time, it will benefit the ISV's business by providing new revenue streams or even new growth-enabling business models, such as a pay-for-performance SaaS model where SaaS customers pay only when processing payments.

Merchant acquirers are actively seeking partnerships with ISVs that want to provide payment acceptance offerings within their B2B software packages. The acquirers recognize the value of integrated packages to their customer bases, and they seek to partner with ISVs to offer payments in a mutually beneficial way. All of the major card brands, including Visa, MasterCard, American Express, and Discover, have welcomed the involvement of software vendors in the payments revenue stream by way of the payment facilitator model.

> *"Becoming a PF has fundamentally changed our business. It has increased our revenue and margin, powering iClassPro to unprecedented growth."*
>
> *Chris McNabb, CEO, iClassPro*

Fast Fact:

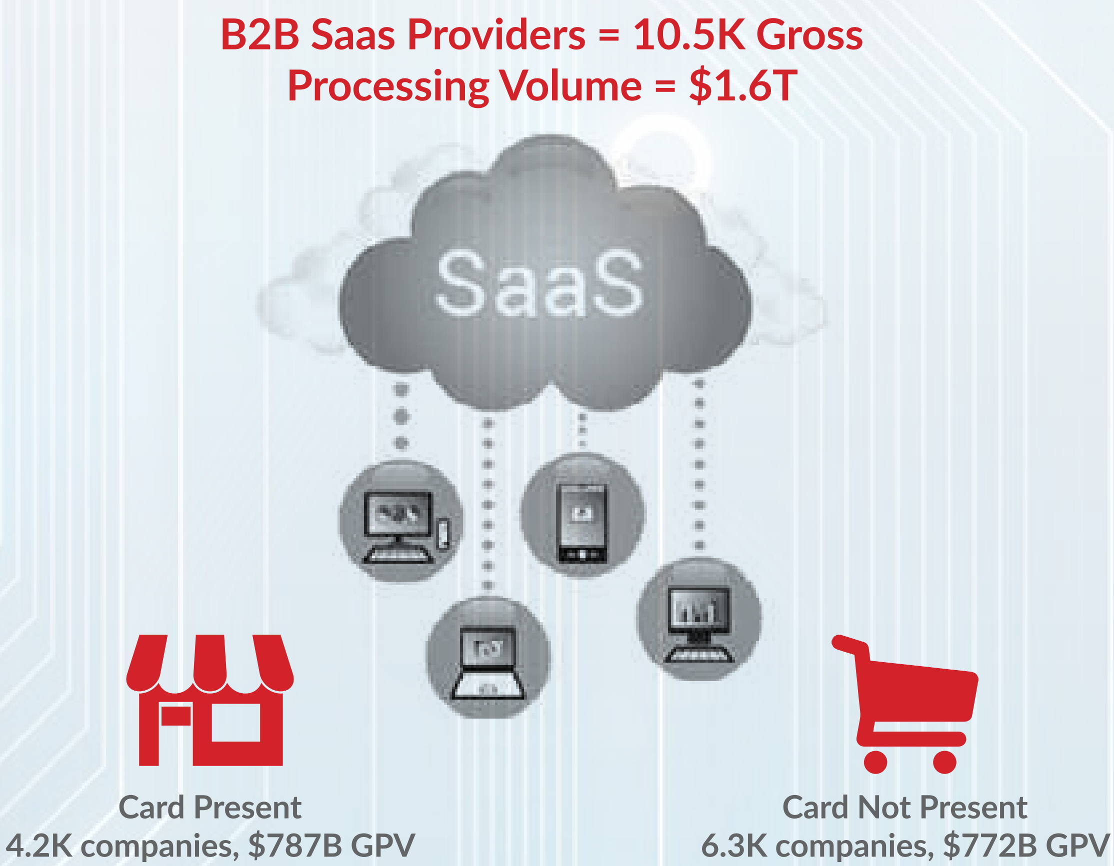
Integrated software vendors (ISVs) selling to businesses can become payment facilitators (PFs), which allows them to provide their clients with integrated payment acceptance and profit from the associated revenue stream.

Market Potential

Over the last 15 years, several well-known companies have proven that the PF model is effective. Examples include Adyen, PayPal, Square, and Stripe, which collectively process hundreds of billions of dollars in gross payment volume (GPV) annually. There is a massive additional opportunity above and beyond what these companies have already achieved. According to Double Diamond Group's research, the business-to-business software as a service (B2B SaaS) industry—an approximately $33 billion market with 22,000 companies1—includes 10,500 U.S.-based companies that are positioned to benefit from the PF model, with a potential GPV of $1.6 trillion.

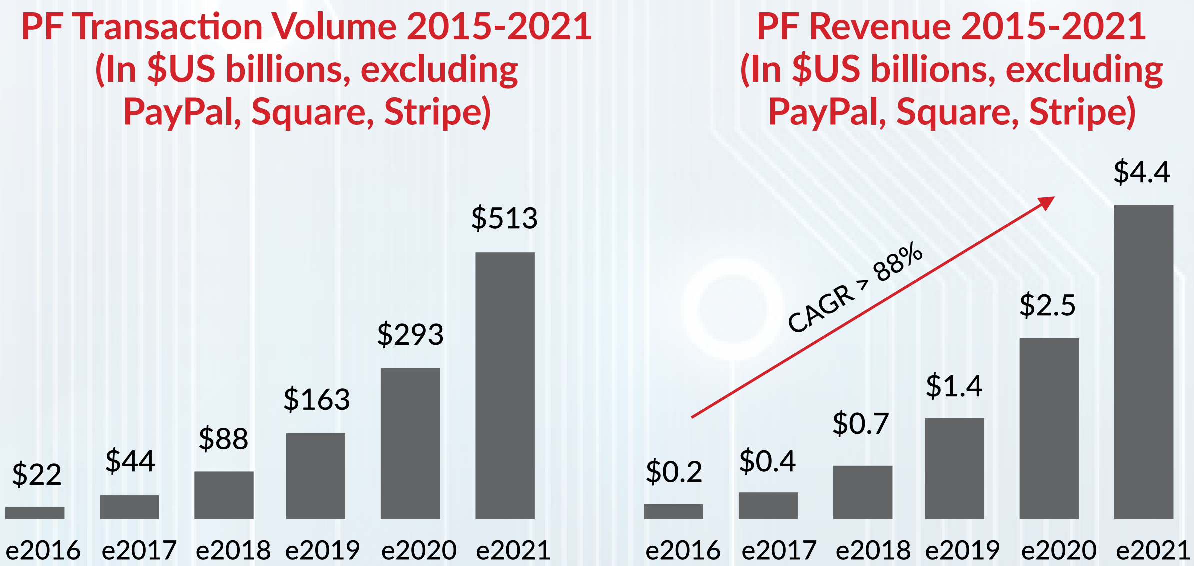
This comprises 4,200 ISVs in the card-not-present (CNP) market with potential GPV of $787 billion and 6,300 ISVs in the card-present market with potential GPV of $772 billion. (See Figure 2)

Figure 2: PF Market Potential



Including the market potential exceeding US$1 trillion in GPV, based on historical adoption, and considering the strong and continued growth in the software industry, we expect that the payment facilitator market excluding PayPal, Square and Stripe will continue to double annually for at least two more years, with growth moderating in subsequent years to yield an average annual growth of more than 80% over the next 5 years. New and recent adopters of the model will be processing over $500 billion in GPV by 2021. Those payment facilitators will generate more than US$4 billion in payment processing revenue net of interchange and network fees in the same timeframe. (See Figure 3).

Figure 3: PF Market Sizing



Source: Double Diamond Group

> *There is a huge opportunity for ISVs to become PFs. The ISV is essentially the merchant acquirer of the future.*
>
> *Todd Ablowitz, President, Infinicept and co-founder/publisher of PaymentFacilitator.com*

Case Study: RunSignUp

RunSignUp sells event management software to entities that organize races such as marathons that benefit specific charities. Its software provides marketing and enrollment tools, pricing, website management and reporting, race-day features, mobile apps, and payment processing.

Race organizers are provided with an event-branded website powered by RunSignUp that allows race participants to register and pay for the event.

"The opportunity for RunSignUp to enter the payments market arose because people organizing races didn't have the time, expertise or desire to set up a website and merchant services account to take online registrations for their races," says Kevin Harris, CFOO of RunSignUp. "RunSignUp provides many more services to races than just payments and becoming a payment facilitator gave us the ability to monetize our services in a unique way that really works for our customers."

RunSignUp became a payment facilitator and began setting up each race organizer as a submerchant. It processes transactions through its master merchant account and remits payments (less fees) directly to race organizers' bank accounts. RunSignUp charges a flat rate of 6% per payment transaction, which covers all costs, including hosting, marketing, and payment processing.

More PF Success Stories

Other ISVs profiting from the PF model include: ASF Payment Solutions, BlueSnap, iClassPro, MindBody, PayPal, PlaceFull, Shopify, Softheon, Square, Stripe, TaxiPass, and YapStone. You can read more about these and many other companies at www.PaymentFacilitator.com

Impressive Growth:

Moorestown, New Jersey-based RunSignUp *was founded in 2009 and became a PF in 2015.*

Currently, RunSignUp is the number two player in its market, which consists of more than 100 competitors. It boards 1,000 new races per month and has an estimated 10% plus market share.

RunSignUp has realized eightfold growth from $12 million in transaction volume in 2013 to over $100 million by the end of 2015.

During the same period, it has experienced no significant fraud losses.

Payment Facilitator Models

ISVs must select from two models through which they can provide PF services: retail or wholesale.

The first is to act as a retail payment facilitator, owning the relationship with the client on a white-label basis and outsourcing risk management and processing to a third-party PF. The outsourcing provider assumes the risks, handles the underwriting and the risk management/risk mitigation, and provides the master merchant account.

The retail PF model is the appropriate fit for an ISV that wants to keep its brand at the forefront at all times and has the resources to manage marketing and customer service. To do this, the ISV will have to register its business with the card networks, while outsourcing risk and liability to a third-party PF.

The second is to act as a wholesale payment facilitator, which enables the ISV to own the entire customer relationship, the entire revenue stream, and all expenses and risks. In this case, the ISV becomes a company that fully owns the payment processing experience. This approach requires the ISV to set up a risk management infrastructure to manage risk and fraud losses stemming from submerchants. This model allows the ISV to control much more of the payment experience by collecting transaction revenue directly from submerchants while earning and retaining a greater share of the total pie.
The retail PF model is suitable for smaller ISVs, while the wholesale model is applicable to any ISV that can afford at least one full-time person to take care of its client on-boarding, risk management, and customer support procedures.

A big advantage of an ISV becoming a wholesale PF is that the ISV already knows more about its customers than an outsourced payments services company or acquirer, putting it in a much better position to manage the risk than a third party. It's also able to make its own risk management decisions, particularly approve or decline decisions, based on its own criteria.

If an ISV wants to become a wholesale PF, it needs to properly underwrite its submerchant clients in order to prevent chargebacks and fraud. This requires deploying appropriate risk management and mitigation tools, just as traditional processors use risk management systems.

A wholesale PF needs to design best practices-based policies and procedures that thoroughly vet submerchants using a risk-based approach.

How the PF Model Benefits Merchants:

- Single point of support for payments and software
- Seamless integration of payments with other software and services
- Easy, frictionless on-boarding of merchants for payments acceptance
- Clear, simple pricing that is more transparent than traditional acquirers' pricing and fees
- Ability to extend the convenience of debit and credit card payments to customer
- Simplified PCI compliance validation process
- Clearly labeled merchant brand on customers' card statements instead of a third-party provider, such as PayPal

Conclusion – Don’t Miss Out

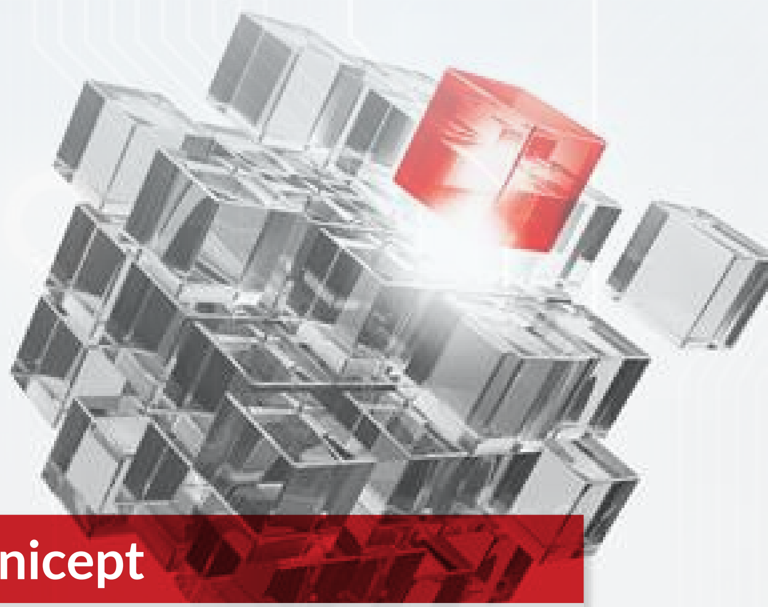
ISVs that miss out on the PF opportunity are handing over significant revenue from their clients’ payment transactions to a third-party service provider, giving up control in the process.

The benefit to an ISV of becoming a PF is that it can deliver a merchant payment services solution that is highly integrated with its software and services offerings to generate significant new revenue streams–and they can do it quickly.

A PF can sidestep the lengthy, arduous underwriting process that often takes days or weeks and enable submerchants to get up and running quickly.

A wholesale PF will have more control over pricing through other models. This is especially important because many ISVs that become PFs soon find that their revenues from payments are at least as significant as their software licensing revenues.

If you are an ISV interested in becoming a PF, get knowledgeable about payments, and be sure to choose the right payment processing partner. That decision will prove to be the most important choice you ever make as a PF. In software, designing your core architecture is crucially important. In payments, the processing infrastructure is equally as important. The technology solutions that the partner provides are very important, and the nature of payment processing may mean you will be partnered with that organization for a very long time.



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About Infinicept

Infinicept is a technology company focused on providing an innovative, turnkey payments platform for payment facilitators. The system, colloquially called Payment Facilitator in a Box™, is a fully integrated suite of components that make it possible for Payment Facilitators to get up and running in weeks, not years.

The platform includes frictionless merchant acceptance, underwriting, boarding and back office operations for the payment facilitator marketplace that is expected to top $4.4 billion by 2021. The platform is a series of automated modules that can be adapted to any vertical market. Its unique, agnostic framework allows payment facilitators to easily integrate their platform with any sponsor, processor, gateway and CRM without starting from scratch.