SaaS 3.0: Beyond Subscription-based Revenue

2023 Embedded Finance Survey Report

SaaS 3.0: The Evolution of Embedded Finance

The SaaS landscape continues to evolve, and as this report makes clear, the rapid adoption of embedded finance products has and will continue to, alter the competitive landscape.

SaaS 3.0 represents a move from the relentless focus on growing the subscription base to a platform approach with multiple revenue streams, contextual offers, and seamless user experience. Yet as this report reveals, the contours of SaaS 3.0 differ by company size, B2B focus, and SaaS leaders' rationale to build embedded finance products.

What doesn't change: SaaS companies see significant adoption of the embedded finance products they've built today, material revenue lift from these products, and are planning continued investment to enhance existing products and launch new ones.

KEY DEFINITIONS AS YOU READ THIS REPORT:

- **Embedded finance products:** customer-facing features or services that relate to traditional finance services, from moving money to facilitating payments to managing risk.
- **Embedded fintech:** vendors offering developer tools and other services that support embedded finance products.

This report is based on 1,600 survey responses collected in early 2023 from SaaS providers around the globe. Survey participants span founders and execs to individual contributors, from engineers and product leads to go-to-market teams and varying stages of maturity in their SaaS 3.0 journey.

PRESENTED BY:

unit · Parafin · gusto embedded · clair · Payrix · melio

Five data points that show how quickly leaders are adopting embedded finance:

1. SaaS companies consider embedded finance a crucial aspect of their business, which is growing rapidly. **The majority of respondents offer three categories of fintech products today and are working on products in two to three categories in the next 12 months.**

2. B2B SaaS platforms place a greater emphasis on embedded finance, offering **an average of three to four fintech product categories today and are working on three to four categories in the next 12 months.**

3. Another (emerging) 'rule of 40': survey respondents reported that **an average of over 40% of customers adopting embedded finance products and report an average revenue increase of over 40% per product built.**

4. B2B SaaS companies are more successful at generating revenue from embedded finance products, with a **9% point increase in Average Contract Value (ACV)** lift compared to all respondents.

5. Lending and payments, including AR/AP, are the embedded finance categories most likely to be offered today. In the next 12 months, respondents say their companies will prioritize lending and banking via card issuing. Beyond the 12-month roadmap, respondents say their companies place the highest importance on embedded payroll.

Read further to explore these survey data in more detail. Our analysis includes the differences by category for respondents' launch rationale, adoption trends, and revenue impact. We also tease out more of the differences between established incumbents (>$100 million in revenue currently) and the next wave of would-be disruptors (<$100 million in revenue). Finally, we dig into respondents' prioritization of their embedded finance roadmap.

SaaS 3.0 and the Embedded Finance Movement

The Evolution of SaaS:

SAAS 1.0

Software Company

- Saas Revenue Only

SAAS 2.0

Software Platform

- Saas Revenue
- Online Payments

SAAS 3.0

Commerce Platform

- Saas Revenue
- Online Payments
- Point of Sale Payments
- Issuing
- Lending
- Instant Payouts
- Software (e.g. billing)

SaaS providers have realized they can generate additional revenue and provide a more comprehensive solution by incorporating embedded financial services into their platforms.

Looking back, SaaS 1.0 companies focused on shifting from an on-prem, perpetual license model to delivering software over the internet through a subscription-based model. SaaS sophistication matured greatly over the years, and leaders got very good at protecting and growing their subscription base.

In contrast, SaaS 2.0 is characterized by adding new revenue streams — primarily accepting card payments in-app. The 'second wave' coincided with more sophisticated features such as machine learning, pre-built app integrations, and a greater ability for users to customize their workflow or workspace.

SaaS 3.0 represents the next evolution of the traditional SaaS model. Where SaaS 2.0 companies likely offered a payment option, SaaS 3.0 companies have expanded into lending, banking, card issuing, insurance, payroll, and employee benefits. In addition, they have created highly-tailored financial products, often for specific verticals (see sidebar on vertical SaaS), with contextual offers based on proprietary data.

Learn more about Vertical Saas:

State of Verical SaaS
Fractal

What is Vertical SaaS and Why It's The Future of SaaS?
Saastitute

The Defining Decade of Vertical SaaS
Medha Agarwal

Matt Downs
President of Worldpay for Platforms

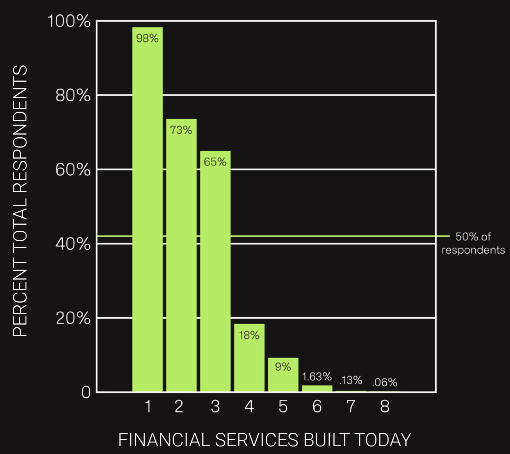
"The transition from SaaS 2.0 to 3.0 is about bringing more and more into the software. It's not just about offering payment acceptance, it's about an evolution that's bringing more utility across the entire software experience."

For many, the subscription revenue they generate via their 'core' offering is only a fraction of the overall revenue opportunity they plan to pursue. Leveraging embedded fintech platforms enables SaaS providers to own the customer experience end-to-end. As noted in this report's 'Decision Criteria' section, SaaS leaders believe they can increase customer loyalty and retention while providing a more seamless experience for their users and customers.

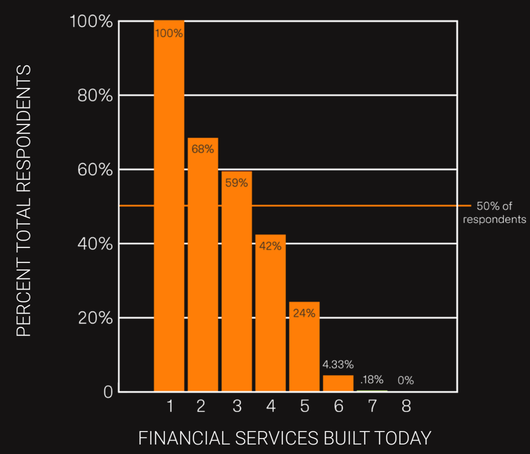
The survey data collected make clear that these value propositions are not theoretical or mere plans; SaaS 3.0 leaders have already made significant investments in embedded finance:

- **The majority of respondents offer three categories of fintech products today and are working on products in two to three categories in the next 12 months.**
  - **B2B SaaS* platforms have invested even more, offering an average of three to four fintech product categories today and working on three to four categories in the next 12 months.**

ALL RESPONDENTS



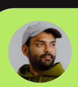
B2B RESPONDENTS



**B2B respondents are those that self-reported 50% or more of the customer base are other businesses.*

These data make clear that embedded fintech adoption far exceeds Geoffry Moore's proverbial 15% threshold for mainstream adoption.

More, embedded fintech offerings span the B2B - B2B2C - B2C spectrum and myriad variations in between. In this report, we pull out B2B responses in particular because embedded fintech now serves all of the pillars required to run a small business:



Sahill Poddar
Parafin CEO

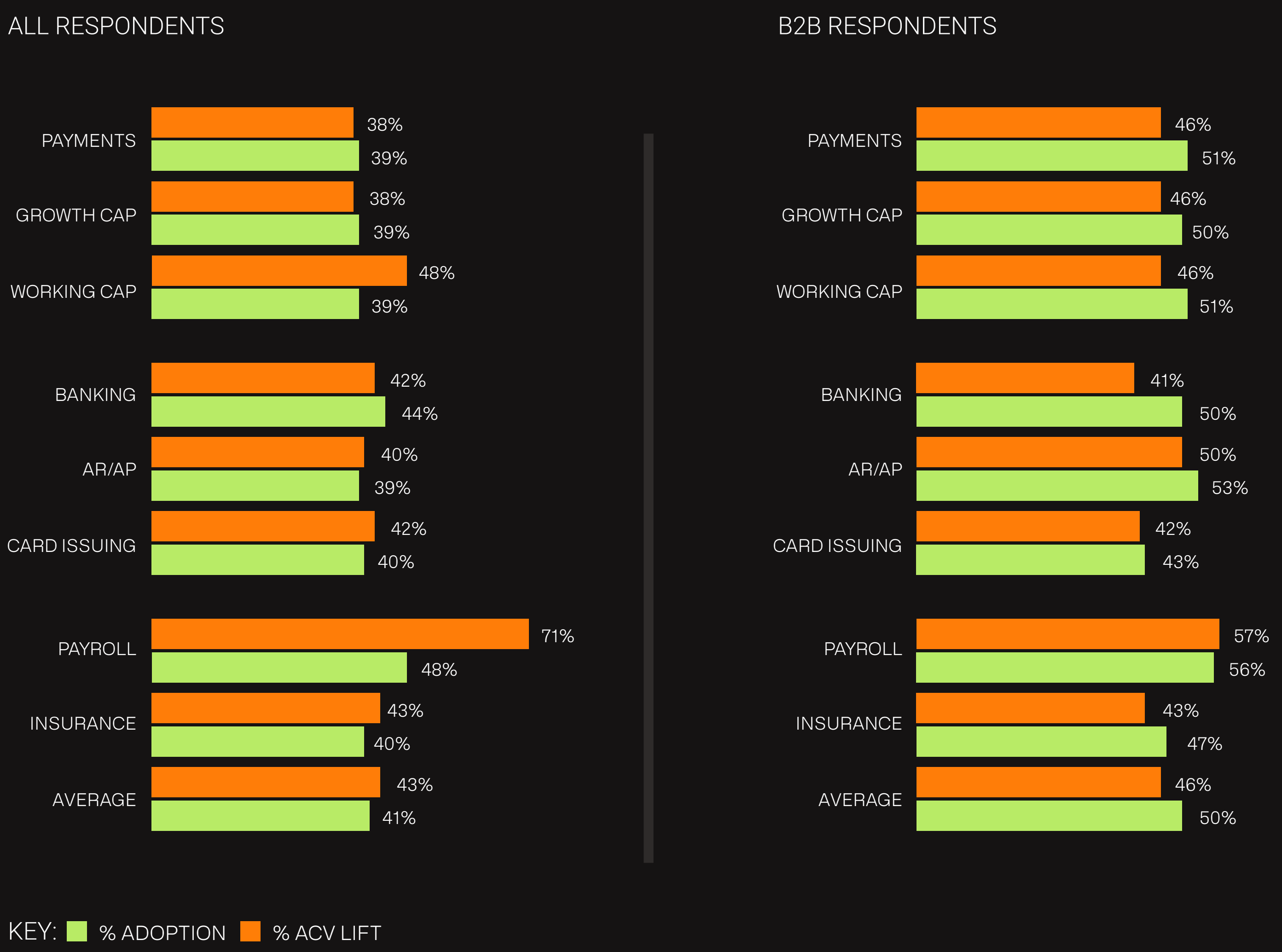
"Small businesses owners need capital to run and grow their business but are underserved by banks. Platforms care about retaining and growing sellers. Embedded financing enables platforms to generate more revenue, build loyalty, and retain their merchants. It's win-win-win.

Embedded Fintech Powers the Next Wave of Growth

SaaS customers have driven the evolution of SaaS — from 1.0 to 2.0 and now to 3.0 — as much as visionary product leaders. As a result, customers have increasingly demanded more integrated solutions and rewarded players who meet those needs with their spending and loyalty over time.

The survey data show material rewards for SaaS providers offering embedded finance:

- **Survey respondents reported an average of over 40% of customers adopting embedded finance products, resulting in an average revenue increase of over 40% per product built.**
    - **B2B SaaS companies monetize embedded finance products even more successfully, with a 9% point increase in Average Contract Value (ACV) lift compared to all respondents.**



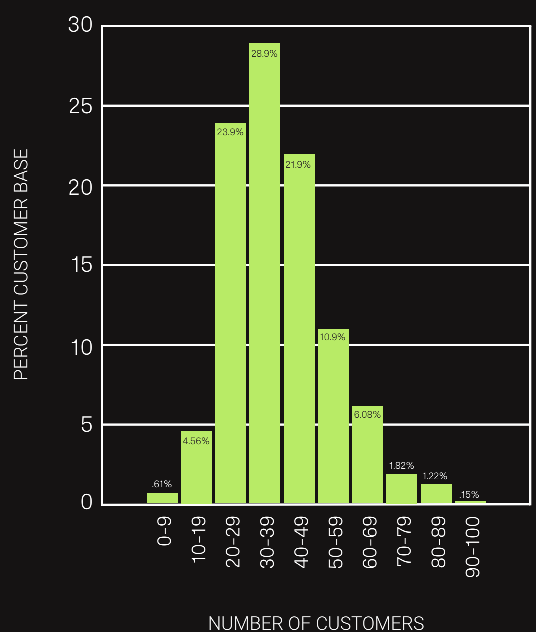
Strong adoption rates and strong revenue impact, measured relative to baseline subscription revenue per customer or per user, helps explain the bullish investment in embedded fintech to date and the equally bullish roadmap plans in the coming years. At first glance, it seems it's "not a question of 'if', but 'when'" for embedded finance.

Prashant Gandhi
Chief Business Officer of Melio

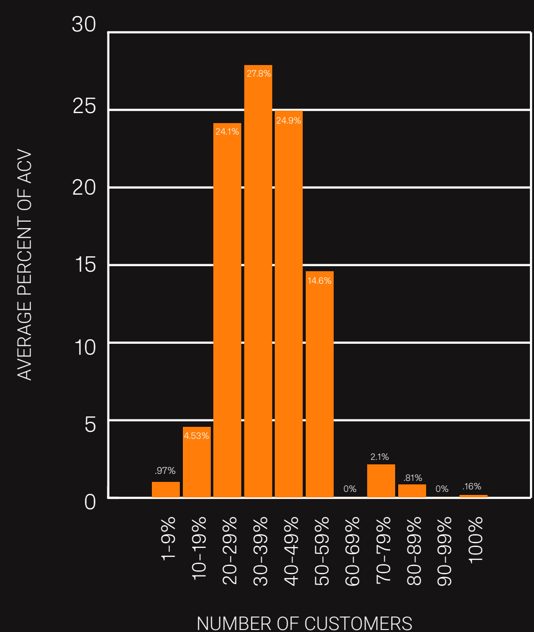
> “Small business operators today are navigating a dizzying number of solutions to get paid, pay their vendor obligations, meet payroll needs, borrow money, etc. Their ask couldn’t be clearer - give me contextual access to all critical business services in the one system I know and trust”

Of course, averages alone can mask a wide range of responses for reported adoption and revenue impact of embedded finance products. Most of the surveyed categories exhibit a roughly normal distribution of responses, as shown below for growth capital. Our analysis did not find strong correlations within the response data to explain why some SaaS companies see high adoption and revenue impact while others see low adoption and impact with similar product categories.

WHAT PERCENT OF YOUR CUSTOMER BASE (NUMBER OF CUSTOMERS) HAS ADOPTED LENDING: GROWTH CAPITAL?



APPROXIMATELY HOW MUCH REVENUE DOES LENDING: GROWTH CAPITAL GENERATE IN TERMS OF YOUR AVERAGE REVENUE PER CUSTOMER?



BRIEF MARKET OVERVIEW

- SaaS 3.0 Embedded Finance is an emerging market expected to grow considerably in the coming years. The increasing demand for integrated financial solutions and the growing adoption of SaaS models in various industries is driving the market. The value of this integrated experience for customers helps explain why embedded finance has grown significantly in revenues in the United States alone over the past two years, and the market could more than triple in size within the next three to five years.
- “The market is valued at US$ 54.3 billion in 2022 and is likely to reach US$ 248.4 billion by 2023. Previously, the market was booming at a higher CAGR of 26.9% (2016 to 2021), resulting in a market size of US$ 43 billion in 2021.” - **Future Market Insights, Inc**.

Prioritizing the Roadmap: an Embedded Finance Playbook

Prioritizing the order of embedded finance products to build involves identifying and focusing on the most valuable and relevant services for customers. The survey responses shed light on how SaaS providers have sequenced the embedded finance they offer today and those they plan to add or enhance in the future (broken out by the next 12 months and the next two-to-three years).

EMBEDDED FINANCE PRODUCT CATEGORIES

- **Payments**: Facilitating monetary transactions through digital channels.
- **Embedded AR/AP**: Managing accounts receivable and payable for effective cash flow.
- **Lending: growth Cap**: Funding for expanding business operations and increasing revenue.
- **Lending: working Cap**: Short-term funding for day-to-day operations and expenses.
- **Banking**: Providing financial services such as deposits, loans, and investments.
- **Payroll**: Managing employee compensation and related taxes and benefits.
- **Insurance**: Managing risk and providing coverage against potential losses.
- **Card Issuing**: Providing payment cards to customers for transactions.

Embedded Finance Products Offered Today

In the survey, Payments emerged as the top priority across industries, except for B2B and companies with over $100 million in revenue. B2B respondents and those prioritizing AR/AP and capital growth ranked these higher. Interestingly, only larger companies had payroll in their top 5, and only B2B Execs had insurance in theirs. The fact that only B2B Rev Execs ranked payments as 8th may suggest that they assume customers already have a solution for this.

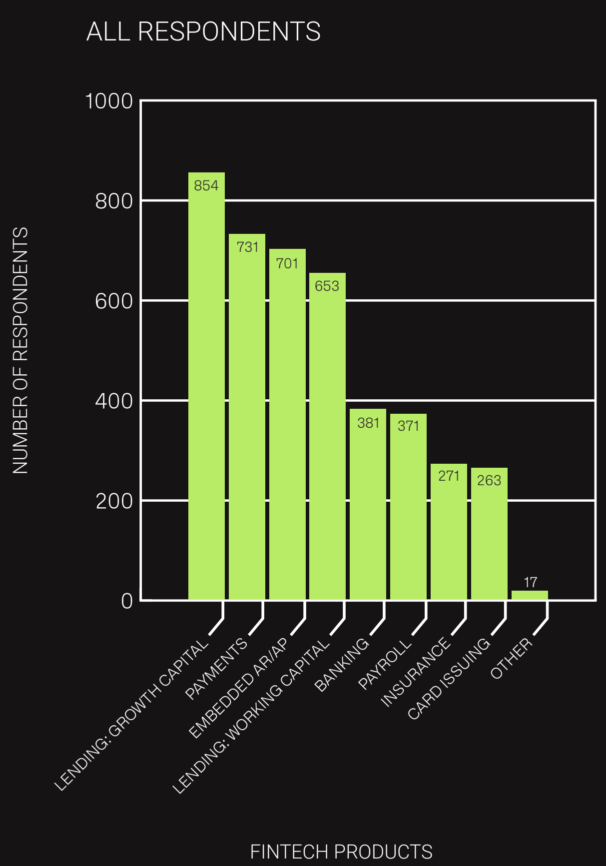
Nearly all respondents (98%) report that their companies offer a product in at least one embedded fintech category. In addition, a majority (65%) offer products in three categories, while nearly 10% offer products in five or more categories.

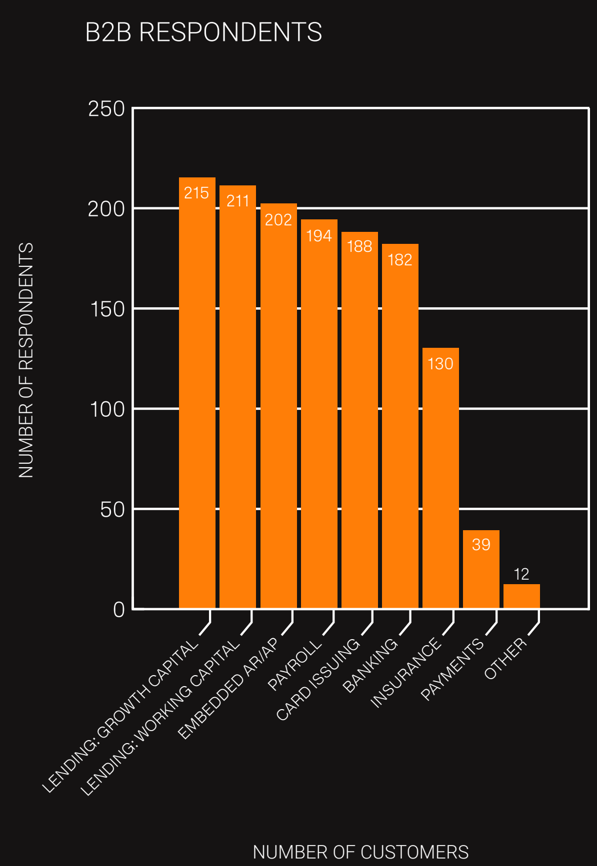
- **Lending and payments, including AR/AP, are the embedded finance categories most likely to be offered today.**

According to the survey, the most commonly offered embedded fintech products are lending for growth capital (20.3%), payments (17.4%), embedded AR/AP (16.7%), and lending for working capital (15.5%). Banking (9.05%), payroll (8.8%), insurance (6.4%), and card (6.3%) are also offered but at a lower frequency.

As a subset of respondents, the survey results indicate that B2B SaaS companies prioritize offering growth capital lending (20.29%) to their customers, followed by payments (17.37%) and embedded AR/AP (16.65%) products. Working capital lending (15.51%) and banking (9.05%) are also offered, along with card issuing (6.25%) and insurance (6.44%). Payroll is offered by 8.81% of respondents, and a small percentage of respondents (0.40%) offer other fintech product categories not listed.

WHICH FINTECH PRODUCT CATEGORIES DO YOU OFFER TO CUSTOMERS TODAY?

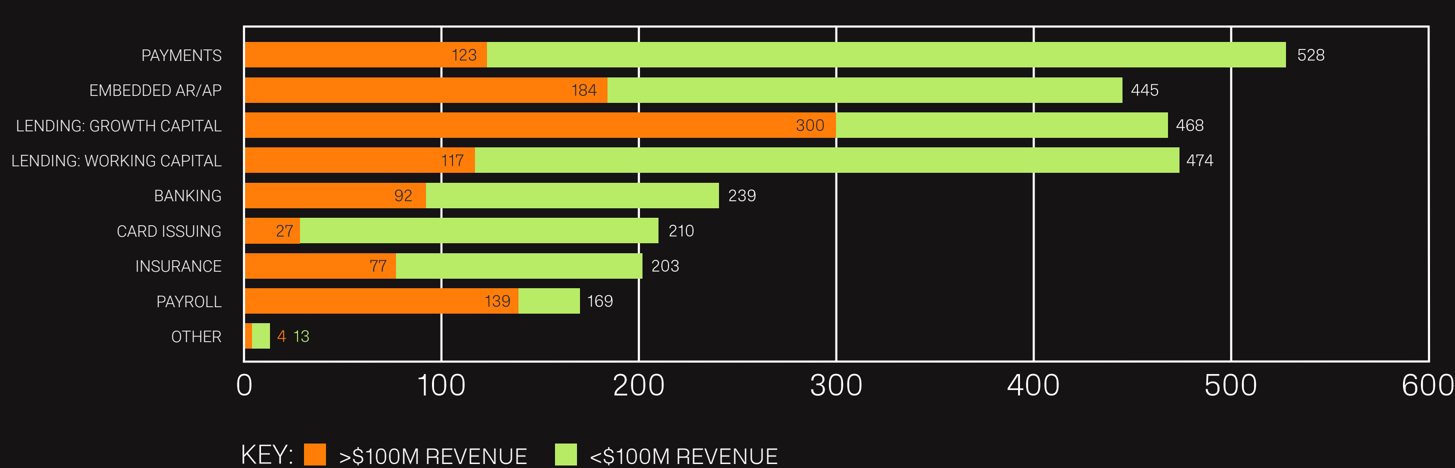




Comparing SaaS companies based on annual revenue reveals differences in the types of embedded finance products offered today. For example, in percentage terms, smaller companies are more likely to offer payment products (19.2% vs. 11.6%) and working capital loan products (17.3% vs. 11.0%).

On the other hand, in percentage terms, larger companies are more likely to offer loan products for growth capital (28.2% vs. 17.0%) and payroll products (13.1% vs. 7.4%).

WHICH FINTECH PRODUCT CATEGORIES DO YOU OFFER TO CUSTOMERS TODAY?



Products Planned in the Next 12 Months

Almost all respondents (98%) plan to launch or improve their products in at least one embedded finance category. The majority (54%) plan to launch or improve products in at least two embedded finance categories, and 43% plan to launch or improve products in three or more categories within 12 months.*

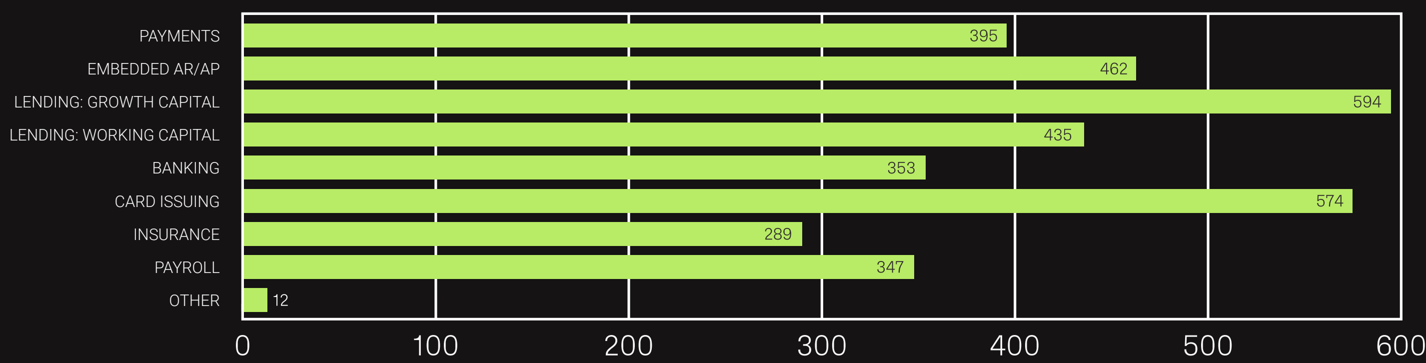
- **In the next 12 months, respondents say lending and banking via card issuing are their companies' top priorities.**

Itai Damti
Unit CEO & Co-Founder

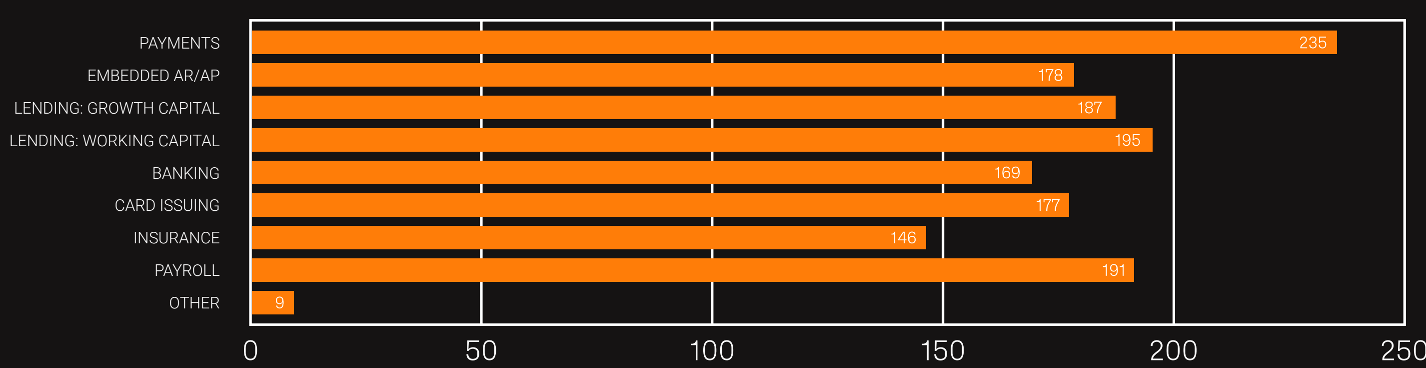
"We're in the early stages of a paradigm shift in the way financial services are offered to individuals and businesses. The future is a combination of software and financial services delivered to specific audiences – landlords, freelancers, small businesses, and more. SaaS companies are in a great position to deliver more value by embedding financial services, helping their users move, store, and lend money, and capturing greater revenue and retention in return."

According to the survey, respondents for 12-month roadmap priorities, in order, are lending for growth capital (17.8%), card issuing (17.2%), embedded AR/AP (13.8%), lending for working capital (13.0%), payments (11.8%), banking (10.6%), payroll (10.4%), and insurance (8.6%).

WHICH FINTECH PRODUCT CATEGORIES DO YOU PLAN TO RELEASE SOON?



B2B respondents' 12-month roadmap priorities differ slightly: payments (15.8%), lending for working capital (13.1%), payroll (12.8%), lending for growth capital (12.6%), embedded AR/AP (12.0%), card issuing (11.9%), banking (11.4%), and insurance (9.8%).



** Note: Why 'launch or improve'? Some of the 12-month roadmap responses include categories already offered by the respondent's company today.*

Once again, comparing respondents by company size yields interesting differences: In percentage terms, smaller companies are more likely to prioritize cards (21.0% vs. 8.0%) and working capital loan products (13.3% vs. 9.5%). Larger companies are more likely to prioritize loan products for growth capital (26.6% vs. 12.8%), AR/AP (16.9% vs. 11.6%), and payroll products (12.5% vs. 9.5%).

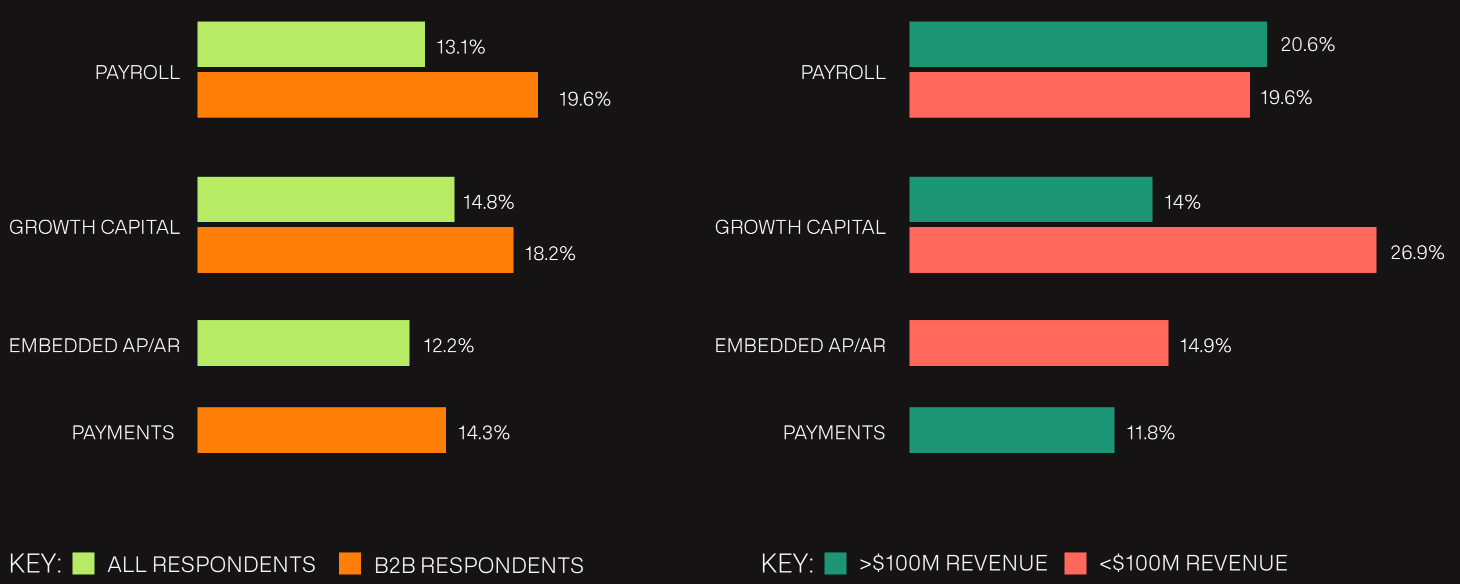
12 MONTH CATEGORY PRIORITY	>$100 REVENUE	<$100 REVENUE
Payments	9.33%	12.65%
Embedded AR/AP	16.88%	11.58%
Lending: growth capital	26.62%	12.75%
Lending: working capital	9.54%	13.26%
Banking	8.39%	10.78%
Card Issuing	7.97%	20.96%
Insurance	8.70%	8.12%
Payroll	12.47%	9.48%
Other	0.10%	0.42%

Products Planned in the Next 2-to-3 Years

In the next 2-to-3 years, the survey revealed that most respondents (19.6%) are evaluating payroll, followed by lending for growth capital (18.2%) and embedded AP/AR (12.2%). B2B respondents ranked their mid-term priorities as growth capital (14.8%), payments (14.3%), and payroll (13.1%).

Larger SaaS companies ranked their mid-term priorities as growth capital (26.9%), payroll (19.6%), and AR/AP (14.9%), whereas smaller SaaS companies ranked their mid-term priorities as payroll (20.6%), growth capital (14.0%) and payments (11.8%).

WHAT FINTECH PRODUCTS ARE YOU PRIORITIZING DEVELOPING IN THE NEXT 2-3 YEARS?



Decision Criteria for Building Embedded Finance

Our survey also tried to elucidate the rationale behind the decision to build embedded finance products in one category versus another. We asked about the following drivers:

- **Revenue growth (top line)**: Increase in sales or revenue over time.
- **Profitability (net margins)**: Revenue minus all expenses equals profit.
- **Competitive differentiation**: Distinguishing product/service from competitors in the market.
- **Feature parity with competition**: Offering equivalent features to competitors in the market.
- **Seamless UX**: A user interface/experience that is easy and intuitive to use.
- **Customer stickiness (decrease churn/increase LTV churn)**: Ability to retain customers and increase their lifetime value.
- **Requested from customers**: Features or services that customers have requested.
- **Level of effort to integrate**: Amount of work required to integrate a product or service.

The following sections that highlight individual categories dive deeper into this data because there were few clear trends in aggregate save two:

- **Revenue growth** ranked #1 or #2 for all categories.
- **Requested by customers** ranked #2 or #3 for five categories (growth capital, working capital, banking, AP/AR, and insurance).

REVENUE GROWTH

#1 OR #2

FOR ALL CATEGORIES

REQUESTED BY CUSTOMERS

#3 OR #4

FOR FIVE CATEGORIES

From there, however, only the outliers call attention. For example, the survey revealed that a seamless user experience ranked #1 for payments. Profitability ranked highly (#3) only for AR/AP. And the level of effort ranked #1 only for card issuing.

SEAMLESS USER EXPERIENCE

#1

FOR PAYMENTS

PROFITABILITY

#3

FOR AR/AP

LEVEL OF EFFORT

#3

FOR CARD ISSUING

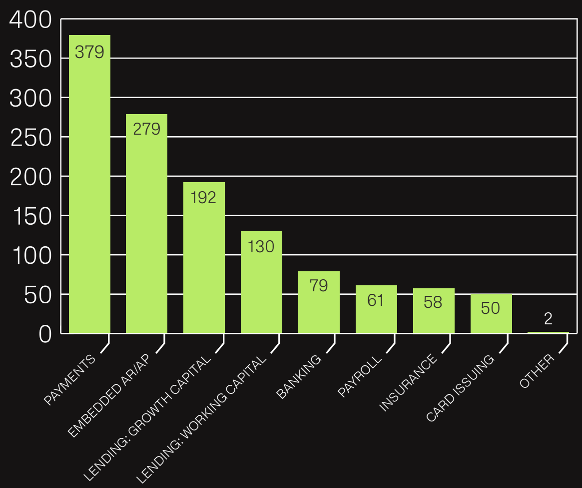
Josh Reeves
Gusto Cofounder & CEO

"At the end of the day, all that matters is making the life of your customers better... more important than trends in embedded fintech is the customer pain [SaaS] providers can solve with embedded financial services."

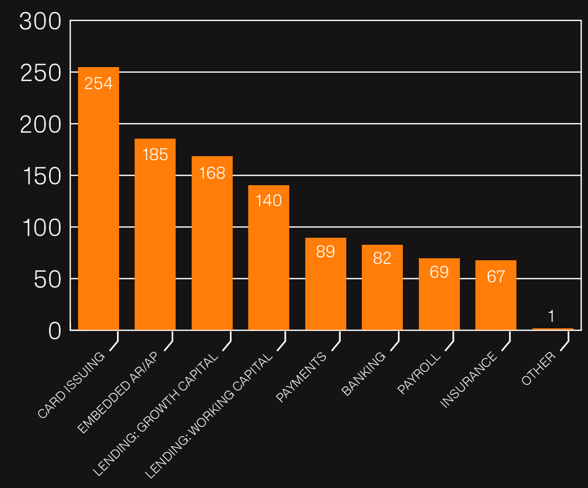
Embedded 3.0 SaaS Categories by the Numbers

While overall, respondents were most likely to say they offer a loan product in-app today, they did not necessarily build that product first. The charts below show the number of respondents that listed each embedded fintech category as their top priority to build (i.e., offered today) and their top priority for their 12-month roadmap.

IN WHAT ORDER DID YOU PRIORITIZE EMBEDDED SERVICES YOU OFFER TODAY?



12 MONTH ROADMAP PRIORITY



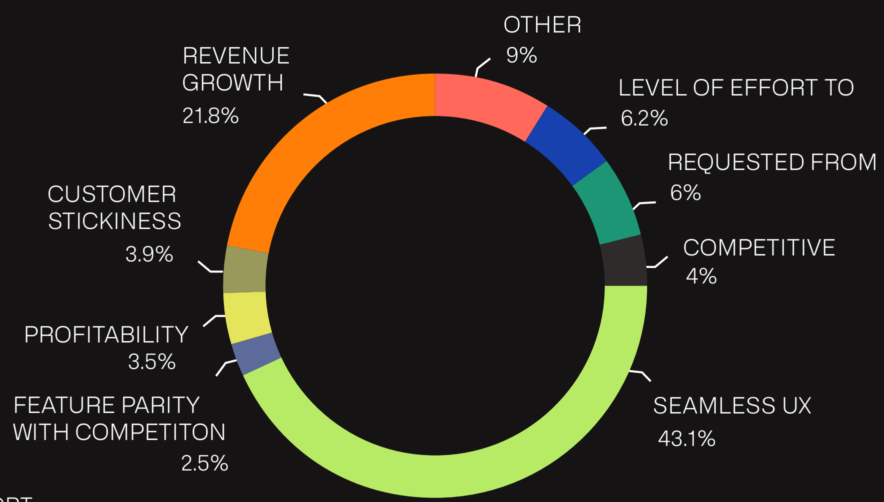
Payments

Embedded payments enable SaaS providers to accept customer payments without redirecting them to a third-party website, providing a seamless experience. This helps businesses to increase conversion rates and customer loyalty. Payment services can also help to manage billing, invoicing, and revenue recognition. When asked to compare payments to all other embedded finance categories, 57% of survey participants ranked payments as their top priority.

Priorities

According to the survey findings, SaaS providers added embedded payments to their platforms for various reasons, with a seamless user experience being the most significant influencer at 43%. Providers also prioritized revenue growth, customer stickiness, feature parity with competitors, and customer payment requests when integrating embedded payments into their platforms. The level of effort required for the integration process was also a consideration for providers.

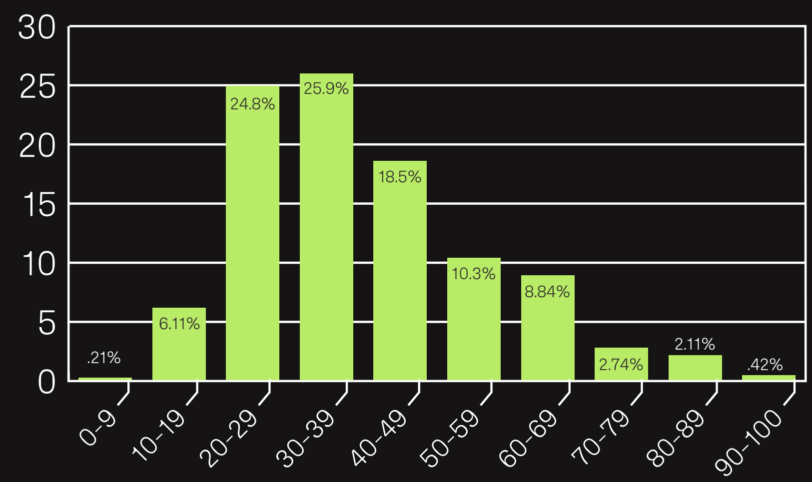
TOP REASON THAT INFLUENCED YOU TO ADD PAYMENTS



Adoption

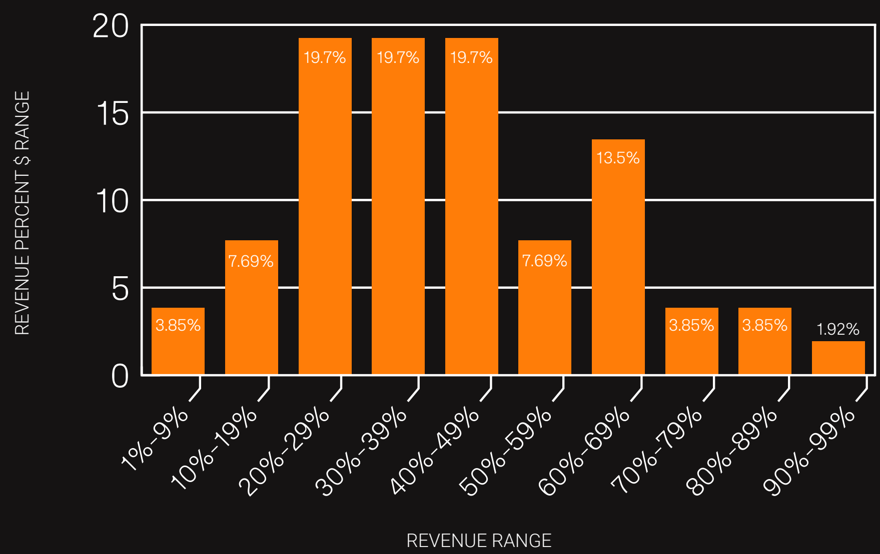
Around 50% of the respondents reported that 30 to 49 percent of their customer base has adopted payments. In comparison, the percentage of respondents with 50 to 59 percent and 20 to 29 percent of customers adopting payments were 10.32% and 24.84%, respectively. This adoption rate suggests that payments are an important feature for customers, and companies should prioritize integrating payment solutions into their offerings

WHAT PERCENT OF YOUR CUSTOMER BASE (NUMBER OF CUSTOMERS) HAS ADOPTED PAYMENTS?



Revenue

The data shows that payments generate a significant portion of the average revenue per customer, with the highest revenue percentages falling in the 20-49% ACV range. This suggests that offering payment capabilities can be a lucrative business strategy for SaaS providers.



Survey Respondent
SaaS 3.0 Finance Survey

"We considered a variety of partners when building our payments offering. Each partner offers unique advantages and features, so we carefully evaluated each to determine which best met our goals for secure payment processing and cost-effectiveness."

[ ] Payrix

PROVIDER PERSPECTIVE

- **UX is everything.** "One of our hallmarks is providing a fully integrated and consistent user experience. Embedded payments follows that principal in that all the functions we provide are built on the same technology for consistency," education management software executive.
- **Drive real growth.** "Embedded payments are fuel for the rest of the business. We've had 40% growth in the last couple of years from payments," dance studio management software executive.
- **Choose a partner carefully.** "Your payment partner should be to your embedded payment solution what AWS/Azure is to your technology stack," childcare management software executive.

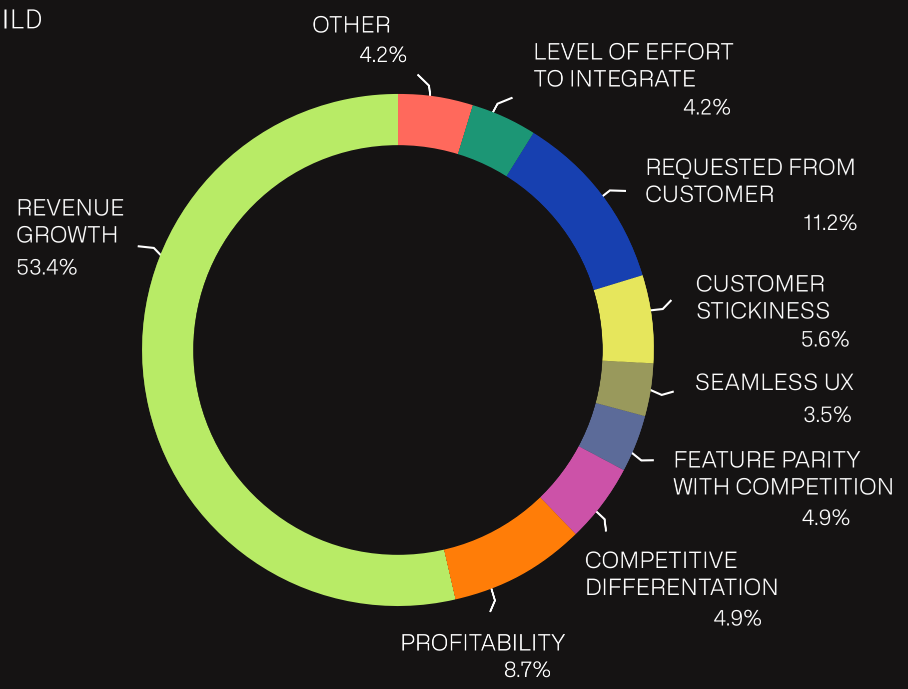
Embedded AR/AP

Embedded AR/AP allows businesses to streamline accounts receivable and accounts payable processes. By integrating these processes into their SaaS application, companies can reduce manual data entry and errors, improve cash flow management, and increase efficiency. When ranked against the other embedded finance services, Embedded AR/AP ranks 3rd highest of products offered, with B2B companies specifically prioritizing it as the most important embedded offering they offer customers today.

Priorities

The survey results indicate that SaaS providers offer embedded finance products related to AP/AR for various reasons, with revenue growth being the primary driver. More than half of the respondents, accounting for 53.4%, cited revenue growth as the top reason for offering these products. Other reasons included customer requests at 11.24%, customer stickiness at 5.62%, and profitability at 8.67%.

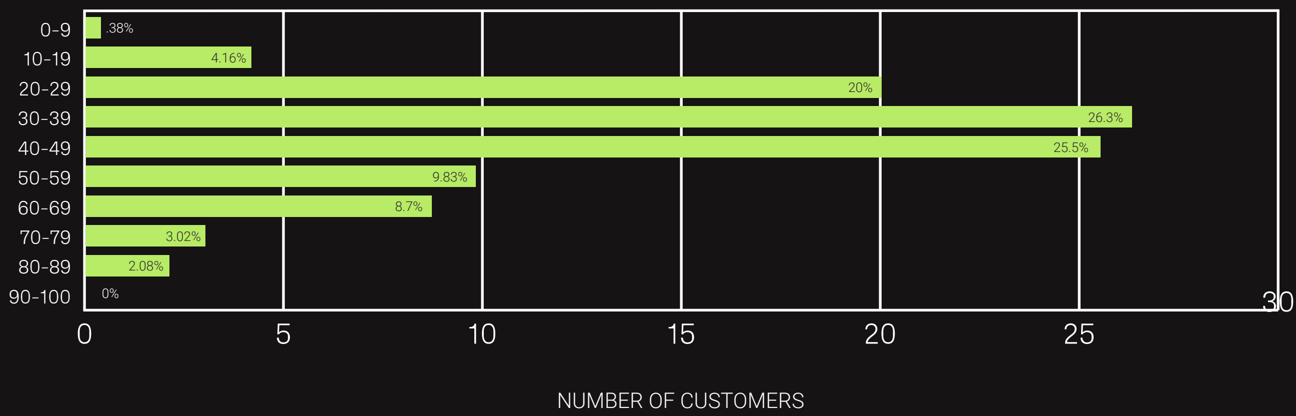
TOP REASON THAT EMBEDDED AP/AR MAY HAVE INFLUENCED YOUR DECISION TO BUILD



Adoption

More than half of the respondents reported that 30-49% of their customer base had adopted Embedded AP/AR, while an additional 20% of the respondents see the adoption of more than 50% among their users.

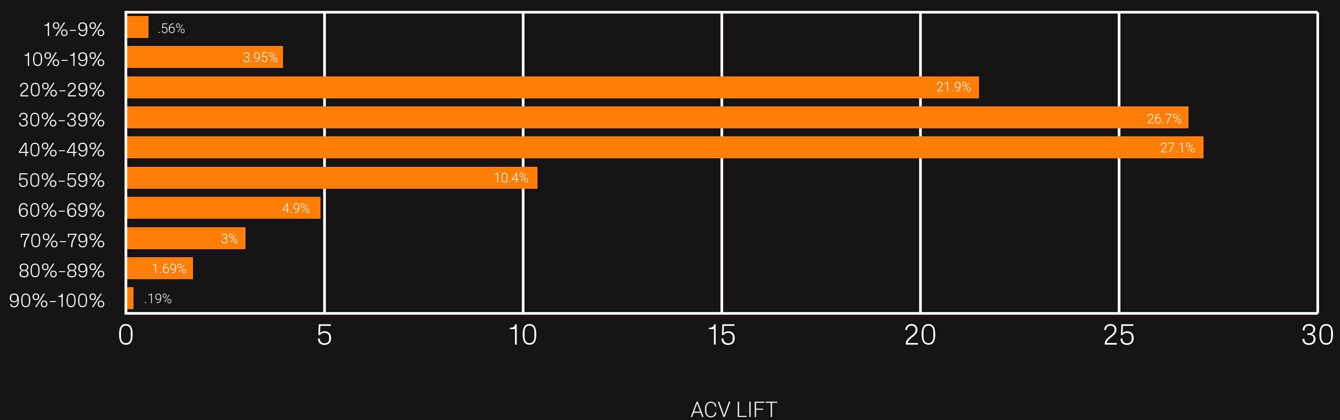
WHAT PERCENT OF YOUR CUSTOMER BASE (NUMBER OF CUSTOMERS) HAS ADOPTED EMBEDDED AP/AR?



Revenue

On average, the ACV lift for SaaS companies offering Embedded AP/AR is in the 20%-49% ACV range is significant. This indicates that SaaS companies are seeing significant revenue growth by implementing Embedded AP/AR, demonstrating the importance of offering it to customers.

APPROXIMATELY HOW MUCH REVENUE DOES EMBEDDED AP/AR GENERATE IN TERMS OF YOUR AVERAGE REVENUE PER CUSTOMER?



Survey Respondent
SaaS 3.0 Finance Survey

"When choosing an embedded partner for an AP/AR offering, it's important to consider factors such as the partner's reputation, the range of services they offer, ease of integration, UI, and pricing structure. It's also important to consider whether building the solution in-house may be more cost-effective or provide greater flexibility and control over the solution."

melio

PROVIDER PERSPECTIVE

SaaS companies have some specific considerations when deciding to partner vs build in-house an AP/AR solution. They want:

- **1**. UI that is intuitive and comprehensive
- **2**. Straight-forward path to integration
- **3**. A mutually beneficial revenue model with their partner
- **4**. Assurance around the security of user data and regulatory compliance
- **5**. The ability to scale quickly.

Melio is driving best-in-class capabilities across these five elements to provide an unparalleled partner experience to B2B SaaS platforms around the country.

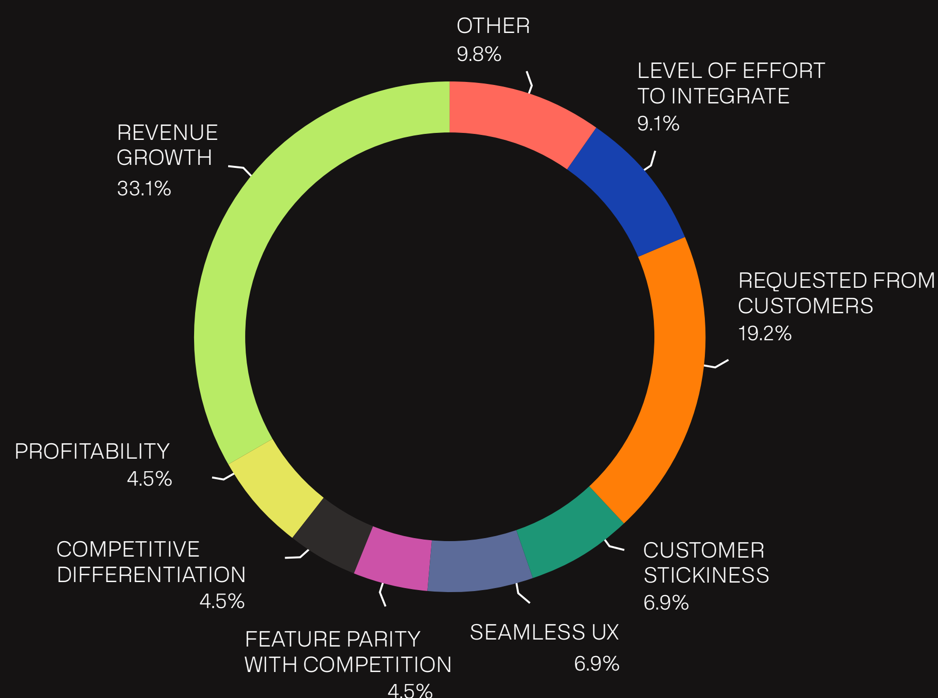
Lending: growth capital

Lending growth capital is a growing trend where lending services are integrated into software platforms, offering capital to customers without needing a separate lender. This model enables SaaS providers to offer their customers financing options, leading to revenue growth and customer retention. It is particularly useful for small businesses that need help to secure traditional bank loans. The trend is expected to continue to grow as more SaaS providers realize the benefits of embedded lending.

Priorities

According to the survey, the top reason for SaaS providers to offer embedded lending growth capital is revenue growth at 33.10%. The second most important factor at 19.21% is requested from customers. Other significant reasons include the level of effort required to integrate lending capabilities, customer stickiness, and seamless user experience.

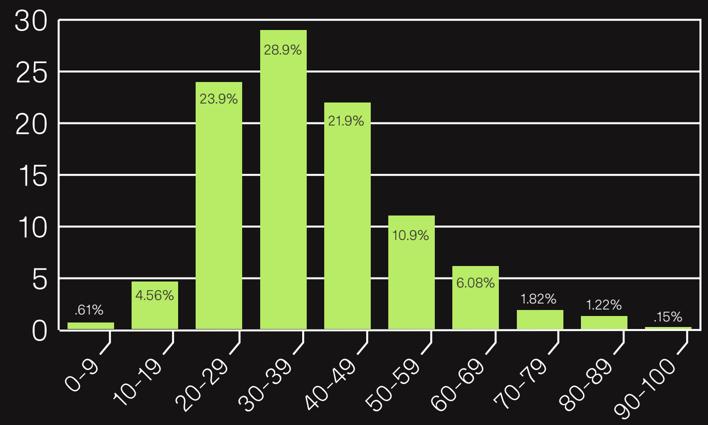
TOP REASON TO BUILD LENDING: GROWTH CAPITAL BY CATEGORY



Adoption

The data shows that a significant percentage of customers have adopted Lending: growth capital, with the majority falling within the 20 to 39 customer range. Interestingly, a small number of customers fall into the highest adoption category of 90 to 100, indicating that there may be room for growth in this area.

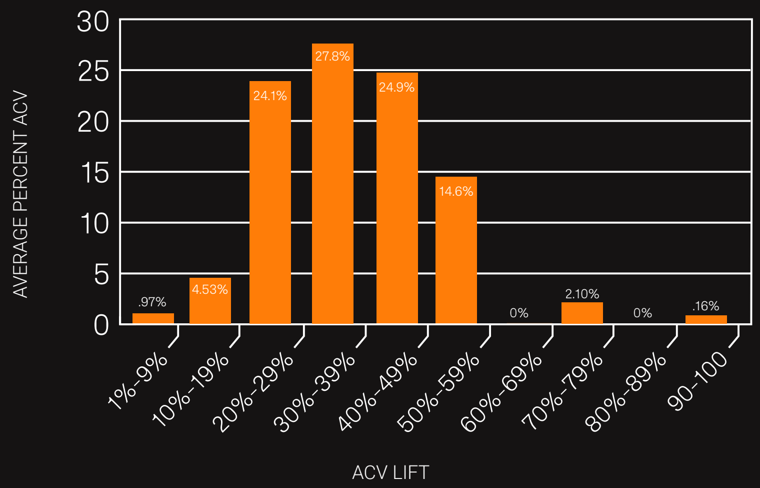
WHAT PERCENT OF YOUR CUSTOMER BASE (NUMBER OF CUSTOMERS) HAS ADOPTED LENDING: GROWTH CAPITAL?



Revenue

Lending: growth capital generates substantial revenue per customer, with the majority in the 20%-49% ACV lift range. The 30%-39% range is the highest at 27.83%, and the 1%-9% and 90%-100% ranges are the lowest, with 0.97% and 0.16%, respectively. Overall, Lending: growth capital is a valuable revenue source for SaaS companies.

APPROXIMATELY HOW MUCH REVENUE DOES LENDING: GROWTH CAPITAL GENERATE IN TERMS OF YOUR AVERAGE REVENUE PER CUSTOMER?



Survey Respondent
SaaS 3.0 Finance Survey

"When building our Lending, we considered several different embedded partners: working capital offering. We also evaluated each partner's features and services, such as API documentation, payment processing speed, fraud protection, and customer service support. Ultimately, we chose our embedded partner because it provides a complete solution for accepting payments and seamlessly integrates with our platform."

Parafin

PROVIDER PERSPECTIVE

- "Embedded financing works because incentives are aligned for platforms and merchants.
- Platforms want an end-to-end, low-lift solution using their own branding. This must include underwriting, marketing, servicing, compliance, and customer support.
- Merchants want seamless access to capital to run and grow their business – without the headache of long applications, credit checks, and hidden fees.
- Merchants already trust the platforms they sell on, so it's a great opportunity for both to strengthen relationships and grow small businesses."

Sahill Poddar, CEO of Parafin

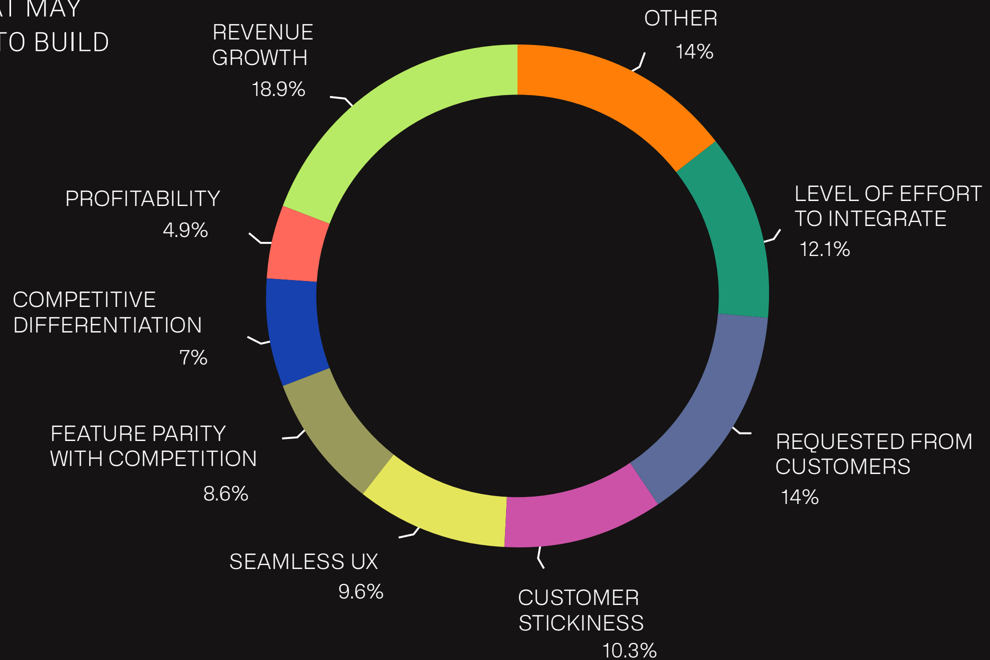
Lending: working capital

Lending for working capital provides businesses with short-term financing to manage cash flow needs, such as paying suppliers, covering payroll, or financing inventory. Embedded lending in SaaS applications is a growing trend that provides SaaS companies with a new revenue stream and gives their customers an easy way to access funding. This service helps small and medium-sized businesses obtain financing without resorting to traditional lenders.

Priorities

The survey results are distributed fairly evenly across all categories. The top reasons lending working capital is prioritized in SaaS applications today are revenue growth and 18.9% and requested from customers at 14%. Respondents also mentioned the level of effort to integrate and seamless UX as important factors. Other reasons cited include competitive differentiation and feature parity with the competition.

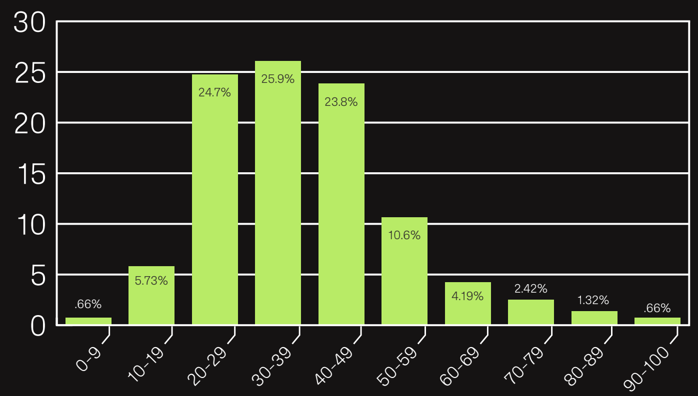
PLEASE RANK TO TOP REASONS THAT MAY HAVE INFLUENCED YOUR DECISION TO BUILD LENDING: WORKING CAPITAL?



Adoption

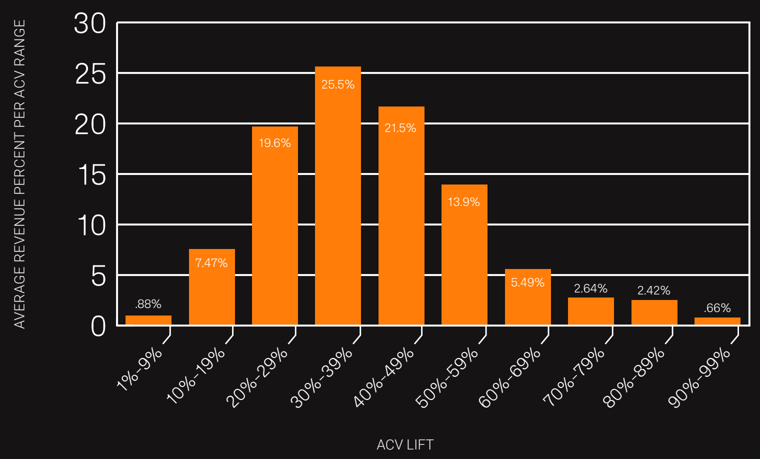
The data represents the percentage of customers who have adopted Lending: working capital across different ranges. The largest percentage of customers who have adopted the product falls within the 20 to 29 range at 24.67%, followed closely by the 30 to 39 range at 25.99%. This range suggests that SaaS providers who offer Lending: working capital are likely to see customer adoption from a significant portion of their customer base, particularly those in the mid to upper range.

WHAT PERCENT OF YOUR CUSTOMER BASE (NUMBER OF CUSTOMERS) HAS ADOPTED LENDING: GROWTH CAPITAL?



Revenue

The data provided indicates that the revenue generated by Lending: working capital varies according to the average revenue per customer (ACV) range. The ACV range of 30%-39% generated the most revenue at 25.49%, followed closely by the ACV range of 20%-29% at 19.56%. It is also interesting to note that the revenue percentages for each ACV range follow a bell curve shape, with the highest and lowest ranges generating the least revenue.



Survey Respondent
SaaS 3.0 Finance Survey

"We considered a number of embedded partners to help us build our Lending: working capital offering. We chose our partner because of their competitive interest rates, simple eligibility criteria, and fast funding times."

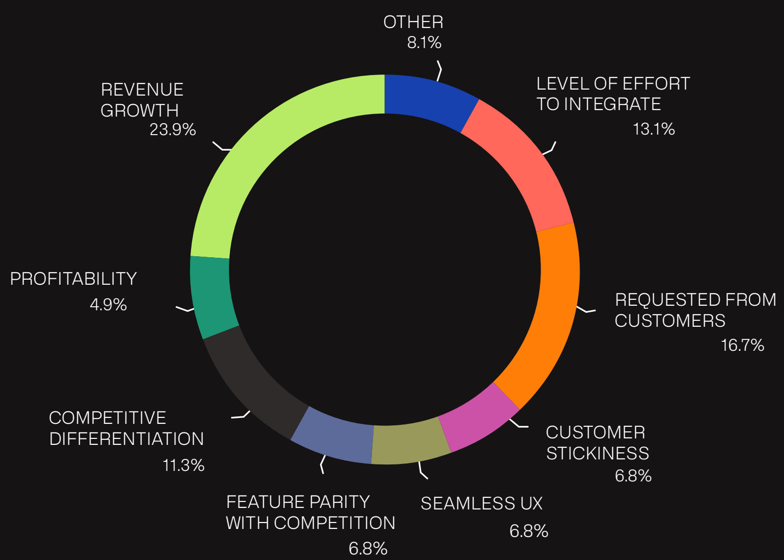
Banking

Embedded banking in SaaS 3.0 refers to the integration of banking services, such as virtual bank accounts and payment processing, into software applications. This allows SaaS providers to offer a more seamless user experience and expand their revenue streams by providing additional financial services. By offering embedded banking, SaaS providers can differentiate themselves from competitors and increase customer retention.

Priorities

The top reason for embedding banking services into SaaS applications is revenue growth, as indicated by 23.87% of respondents in a survey. In addition, 16.67% of participants mentioned that the move to embed banking services was driven by customer demand, while 13.06% cited the level of effort required to integrate. Competitive differentiation was also a notable factor, with 11.26% of respondents considering it a key reason to offer embedded banking.

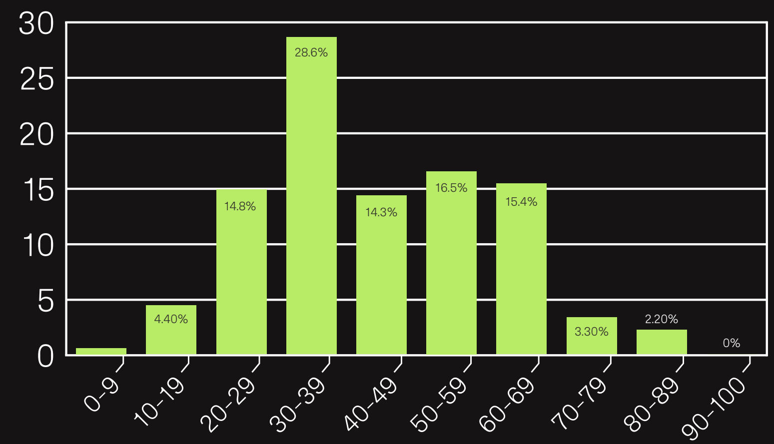
TOP REASONS TO EMBED BANKING



Adoption

The data shows that only a small percentage of customers have adopted banking, with 0.55% having no customers using banking and only 4.4% having between 10-19% of customers using banking. The majority of respondents have less than 50% of their customer base using banking services. This trend suggests that there is significant room for growth in the adoption of embedded banking services among SaaS providers' customer base.

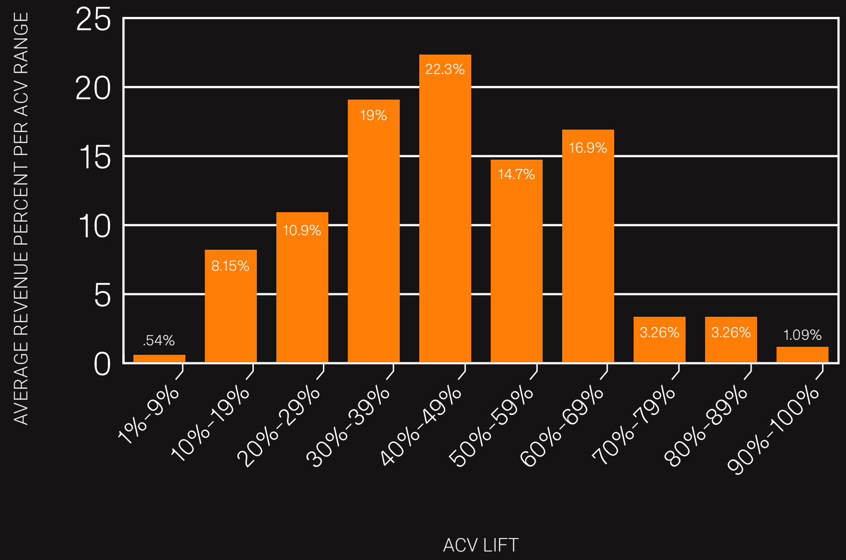
WHAT PERCENT OF YOUR CUSTOMER BASE (NUMBER OF CUSTOMERS) HAS ADOPTED BANKING?



Revenue

The data represents the percentage of SaaS customers that have adopted banking for each ACV range. The highest percentage of embedded banking providers is in the 40%-49% ACV range at 22.28%. The data indicate that larger customers adopt embedded banking more than smaller ones and suggest significant room for growth for banking features across all ACV ranges.

APPROXIMATELY HOW MUCH REVENUE DOES BANKING GENERATE IN TERMS OF YOUR AVERAGE REVENUE PER CUSTOMER?



Survey Respondent
SaaS 3.0 Finance Survey

"When choosing a partner for embedded banking, you must take into account payment processors, payment gateways, or financial institutions to manage payment processing and other financial transactions. The decision of partner and technology will ultimately depend on different factors, such as budget, market size, company size, regulatory compliance, and product requirements."

unit

PROVIDER PERSPECTIVE

- The growth of embedded finance is predicted to accelerate dramatically over the next few years as software companies take advantage of their unfair advantage - the flywheel of distribution, trust, software and data - to launch massively successful embedded financial products in their vertical.
- For small-businesses and end users, embedded finance delivers convenience, tailored financial services when they need it, better terms, and faster access to money.
- For platforms and SaaS companies, embedded finance helps you differentiate from competitors, deliver more value to existing users, and improve customer loyalty.
- Platforms and SaaS companies that embedded financial services have seen 2-5x lift in revenue, 7x higher customer lifetime value, and 50% lower customer acquisition costs.

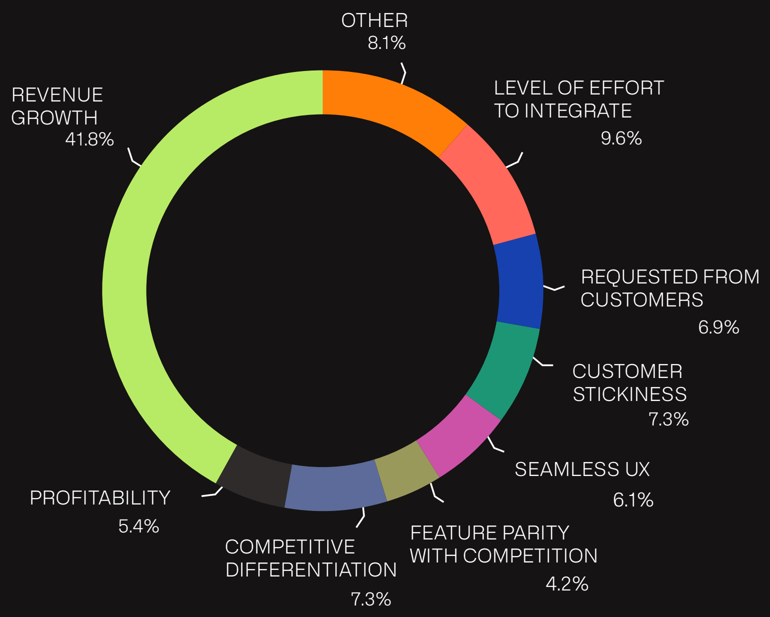
Payroll

Embedded payroll directly integrates payroll processing features into a SaaS application. This feature allows businesses to manage payroll tasks, such as calculating and distributing employee salaries, taxes, and other deductions, all within a single SaaS platform. By embedding payroll features into a SaaS application, businesses can streamline their payroll processes and reduce the need for manual data entry, resulting in greater accuracy and efficiency.

Prioritizing

Payroll is embedded into SaaS applications today for several reasons. The top reason is revenue growth, with 41.76% of respondents citing it. Other reasons include competitive differentiation, customer stickiness, and seamless UX, accounting for around 6 to 7% of responses. The data suggest that embedding payroll features into SaaS applications can significantly grow revenue and improve their competitive positioning.

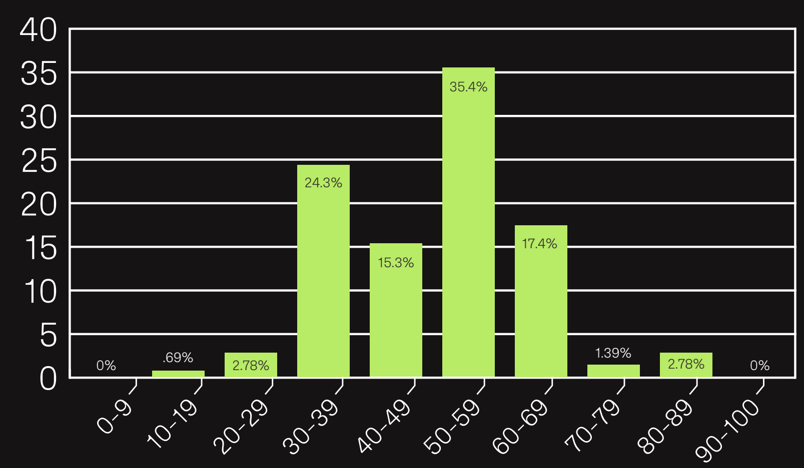
TOP REASON THAT MAY HAVE INFLUENCED YOUR DECISION TO BUILD PAYROLL



Adoption

The data shows that a significant portion of customers (approximately 75%) have adopted payroll to some extent. The highest adoption percentage is in the 50 to 59% range, indicating that many customers use payroll features. This adoption rate suggests that payroll integration is valuable for SaaS companies and is becoming an essential feature for their customers.

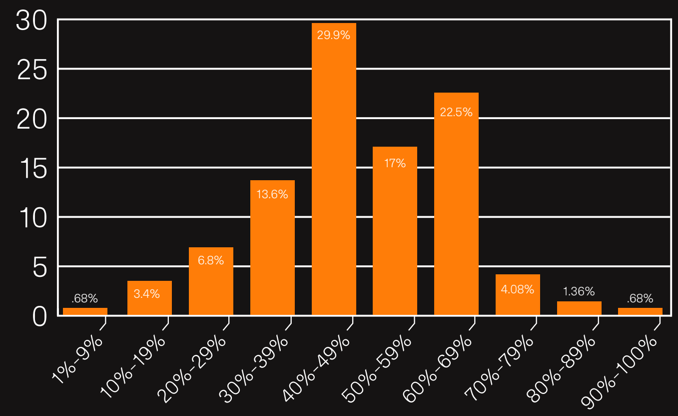
PERCENT OF YOUR CUSTOMER BASE (NUMBER OF CUSTOMERS) HAS ADOPTED PAYROLL



Revenue

The data shows that embedded payroll generates significant revenue growth for SaaS applications. Across 30% to 69% ranges, the revenue per customer averages 20.75%, with the largest revenue coming from the 40%-49% ACV lift range. This high ACV range indicates that embedded payroll is a valuable addition to SaaS applications, providing a strong revenue stream per customer who adopts the feature.

APPROXIMATELY HOW MUCH REVENUE DOES PAYROLL GENERATE IN TERMS OF YOUR AVERAGE REVENUE PER CUSTOMER?



Survey Respondent
SaaS 3.0 Finance Survey

"Partnering with a Payroll service provider involves finding a company specializing in Payroll services to provide the software and support needed. This option benefits companies that need more resources or expertise than they have to build and maintain a Payroll system in-house."

gusto embedded

PROVIDER PERSPECTIVE

- Think hard about who you want to get into bed with: not only do different platforms' APIs work differently, the approach to partnership and go-to-market is also distinct.
- In payroll, compliance at scale is key: there are thousands of tax rate changes each year and it can take up to 18 months to resolve filing errors.
- Context and experience matter: while payroll is often viewed as a commodity, different industries often need different features and functionality to meet customer needs.

clair

PROVIDER PERSPECTIVE

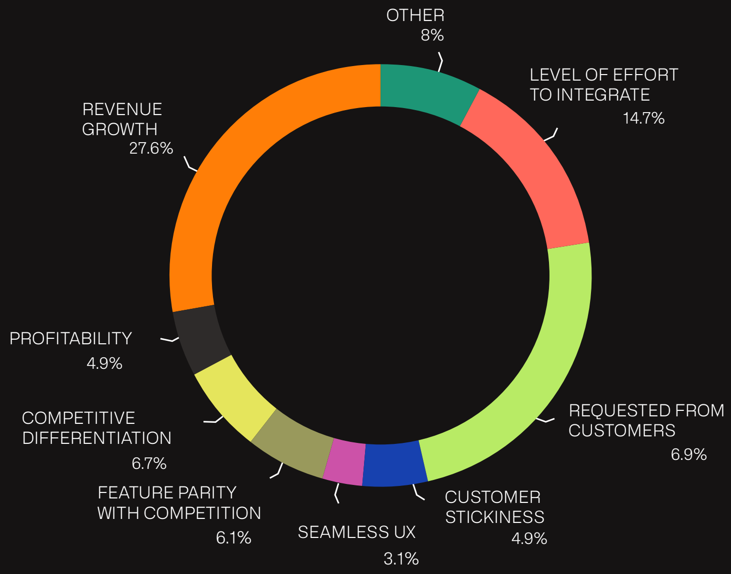
- Most companies already have a payroll provider, and getting them to switch will be a challenge.
- Engaging employees and increasing retention and productivity has and will continue to be top of mind for HR professionals. There are few better ways to do that than through what matters most – employees' finances.
- By embedding innovative payroll solutions and financial wellness benefits into their platforms, employers can lessen employees' financial strain and see happier employees that stay at their jobs for longer.

Insurance

In the context of SaaS 3.0, insurance refers to the practice of providing insurance services to customers of software-as-a-service (SaaS) platforms. This can include a range of insurance products designed to mitigate risks associated with using SaaS products, such as data breaches, system downtime, and other issues that may cause disruptions to business operations.

Prioritizing

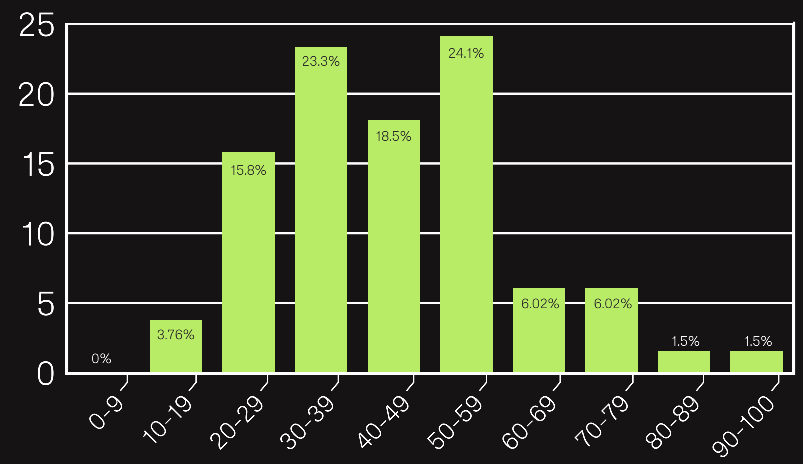
Insurance is embedded into SaaS applications for various reasons, with revenue growth being the top motivator at 27.61% and customer demand being the second reason influencing the decision at 23.93%. However, the survey also found that profitability and seamless user experience were not significant factors in the decision to embed insurance in SaaS applications.



Adoption

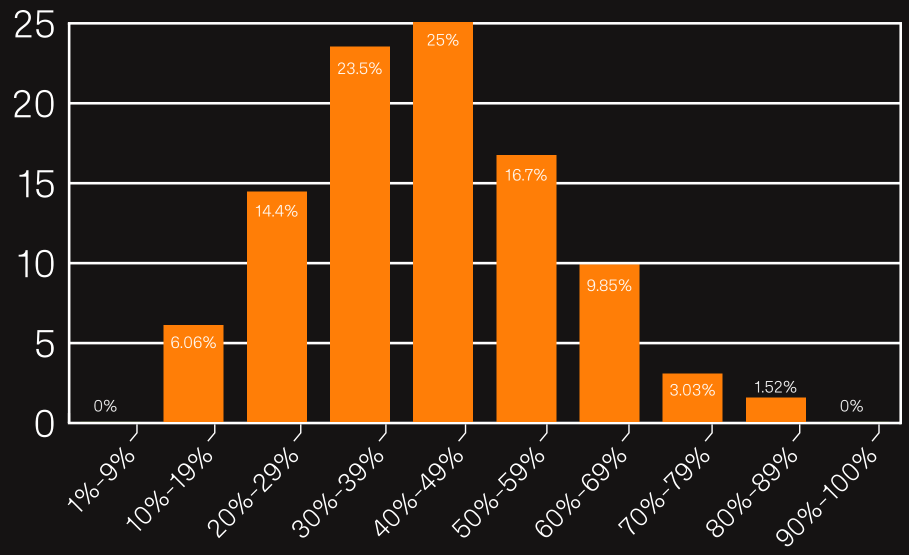
According to the data, 24.06% of providers have 50-59 customers who have adopted embedded insurance. Overall, the data show strong adoption in the 20 to 59 customer range, suggesting that insurance features are gaining traction in the SaaS industry as providers seek to enhance their financial offerings with protection benefits in their user experience.

WHAT PERCENT OF YOUR CUSTOMER BASE (NUMBER OF CUSTOMERS) HAS ADOPTED INSURANCE?



Revenue
The data shows that embedded insurance generates significant revenue for SaaS companies. The highest percentage of revenue is generated in the 30 to 49% range, with an average of 24.4%. The data also suggests that larger customers tend to generate more revenue from embedded insurance features. No revenue is generated from embedded insurance in the 1%-9% ACV range, indicating that this feature may be less valuable for smaller customers.

APPROXIMATELY HOW MUCH REVENUE DOES INSURANCE GENERATE IN TERMS OF YOUR AVERAGE REVENUE PER CUSTOMER?



Survey Respondent
SaaS 3.0 Finance Survey

"To help build our insurance offering, we considered partnering with multiple embedded partners. We chose multiple partners based on their capabilities for providing innovative insurance solutions. In addition, we have also been exploring the option of becoming a payments facilitator, which would allow us to facilitate transactions within the insurance space."

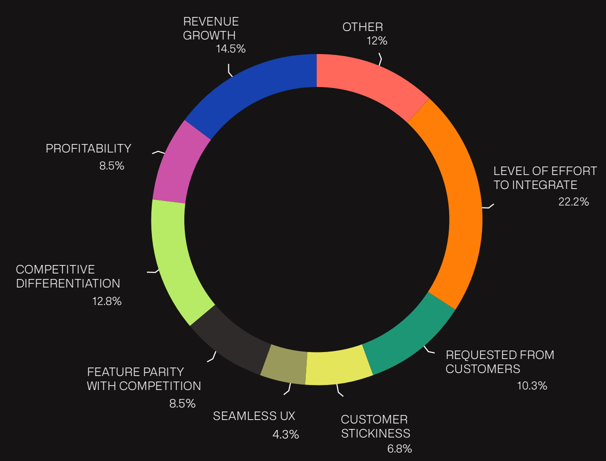
Card Issuing

Embedded card issuing in SaaS 3.0 financial services refers to the integration of card issuance capabilities directly into a SaaS platform, enabling the platform to issue virtual or physical payment cards to customers. This allows the SaaS platform to offer financial services such as payment processing, expense management, and cashback rewards. In addition, the card issuing capabilities are built directly into the platform, making it easy for customers to access and use the financial services without leaving the platform.

Prioritizing

Embedded card issuing is becoming increasingly popular in SaaS applications for several reasons. According to the data, the top three reasons are the level of effort to integrate at 22.22%, revenue growth of 14.53%, and competitive differentiation of 12.82%. Interestingly, the number of companies integrating card-issuing features to create a seamless user experience lags behind all other reasons to embed card issuing.

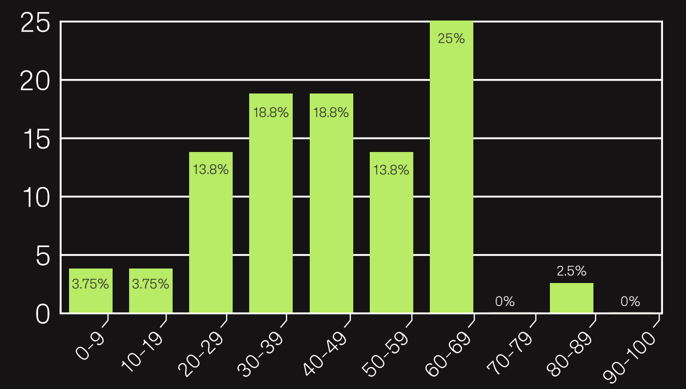
CARD ISSUING TOP REASONS



Adoption

According to the survey data, a significant percentage of providers with customers in the 30-49 range have adopted card issuing. Additionally, 25% of customers in the 60-69 range use the service, indicating that larger customers are likelier to adopt this card issuing. The low percentages in all ranges signify the potential for growth in card-issuing adoption across all provider customers.

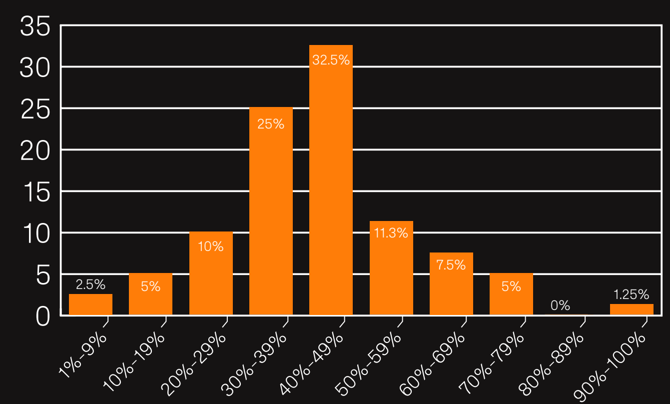
WHAT PERCENT OF YOUR CUSTOMER BASE (NUMBER OF CUSTOMERS) HAS ADOPTED CARD ISSUING?



Revenue

The survey responses indicated that the revenue generated by card issuing increases as the ACV range increases. An ACV lift of 40%-49% is the most common for average revenue per customer. There is no revenue generated from the 80%-89 % ACV range, which suggests that customers in this range may not be interested in or may not need Card Issuing. The data indicates that there is significant potential for revenue growth in the adoption of Card Issuing across all ACV ranges.

APPROXIMATELY HOW MUCH REVENUE DOES CARD ISSUING GENERATE IN TERMS OF YOUR AVERAGE REVENUE PER CUSTOMER?



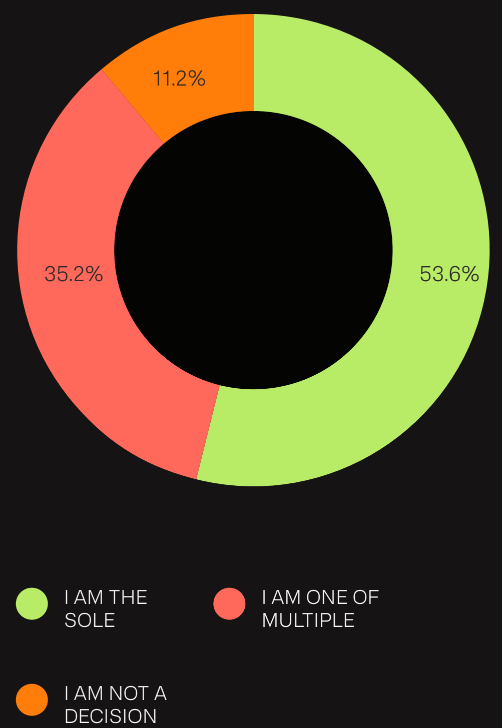
Survey Respondent
SaaS 3.0 Finance Survey

"We considered several embedded partners for our Card Issuing offering based on the benefits and features that can be tailored to the needs of our customers. We ultimately chose a provider to power our card-issuing platform due to its competitive advantages, such as its global acceptance, secure technology, and loyalty programs."

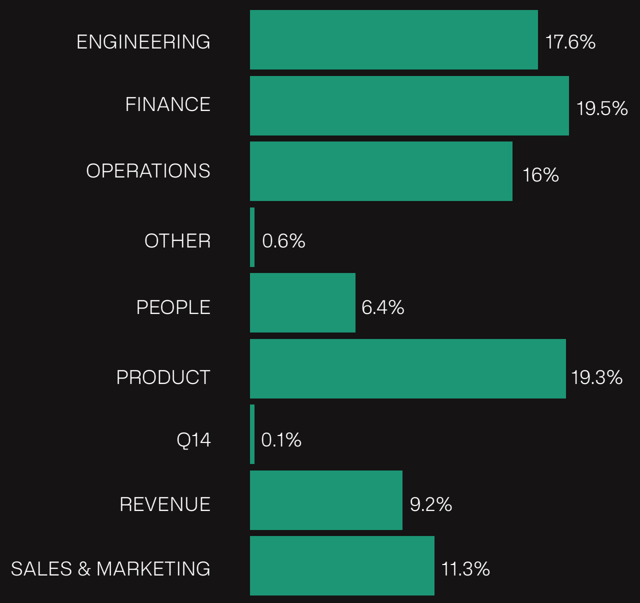
About This Report

The SaaS 3.0 Embedded Finance Report was created using survey questions from 1600 participants. They represent SaaS companies of varying sizes that service both B2B customers. The respondents include founders, executives, engineers, and product development teams at representing levels from manager through executive as well as founders.

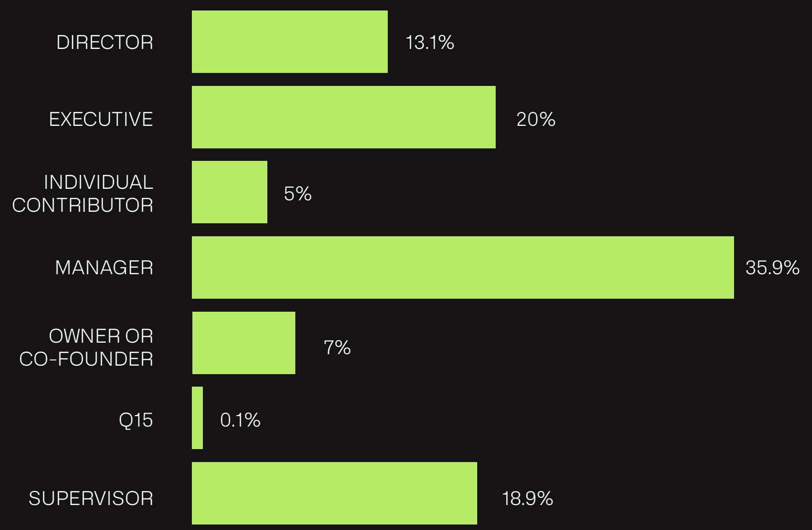
WHICH OF THE FOLLOWING BEST DESCRIBES YOUR ROLE WHEN IT COMES TO PLANNING AND BUILDING FINTECH PRODUCTS AND CHOOSING EMBEDDED?



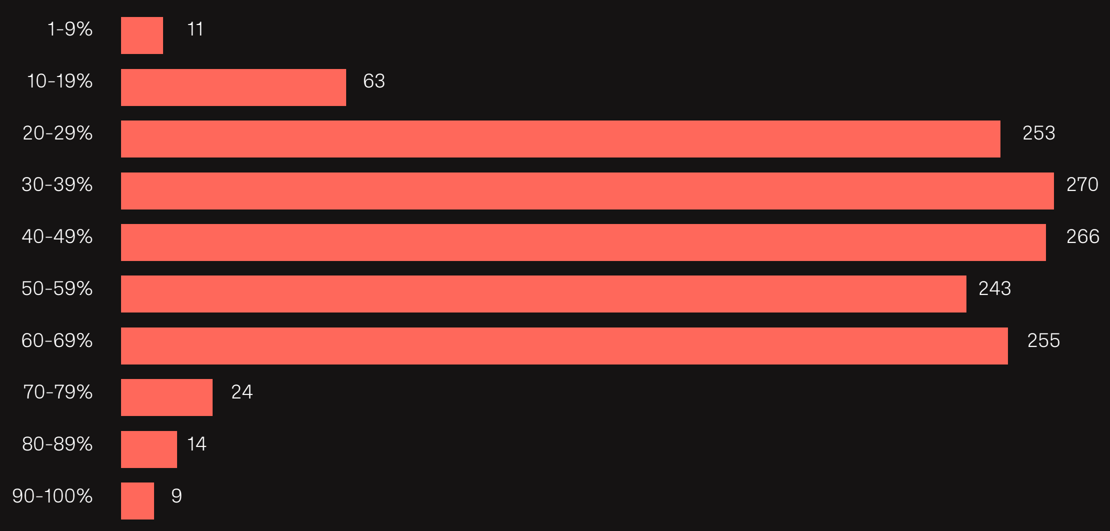
WHICH OF THE FOLLOWING BEST DESCRIBES YOUR CURRENT FUNCTION WITHIN YOUR COMPANY?



WHICH OF THE FOLLOWING BEST DESCRIBES YOUR CURRENT LEVEL WITH YOUR COMPANY?



WHAT PERCENTAGE OF YOUR CUSTOMER BASE ARE OTHER BUSINESSES (B2B)?



WHICH PHRASE BEST DESCRIBES YOUR COMPANY'S YEAR-OVER-YEAR GROWTH RATE?

22.36%

FLAT (NOT CONTRACTING, NOT GROWING)

50.18%

GROWING AT A COMFORTABLE PACE

15.76%

GROWING AT AN UNCOMFORTABLE PACE WHERE IT'S HARD TO KEEP UP

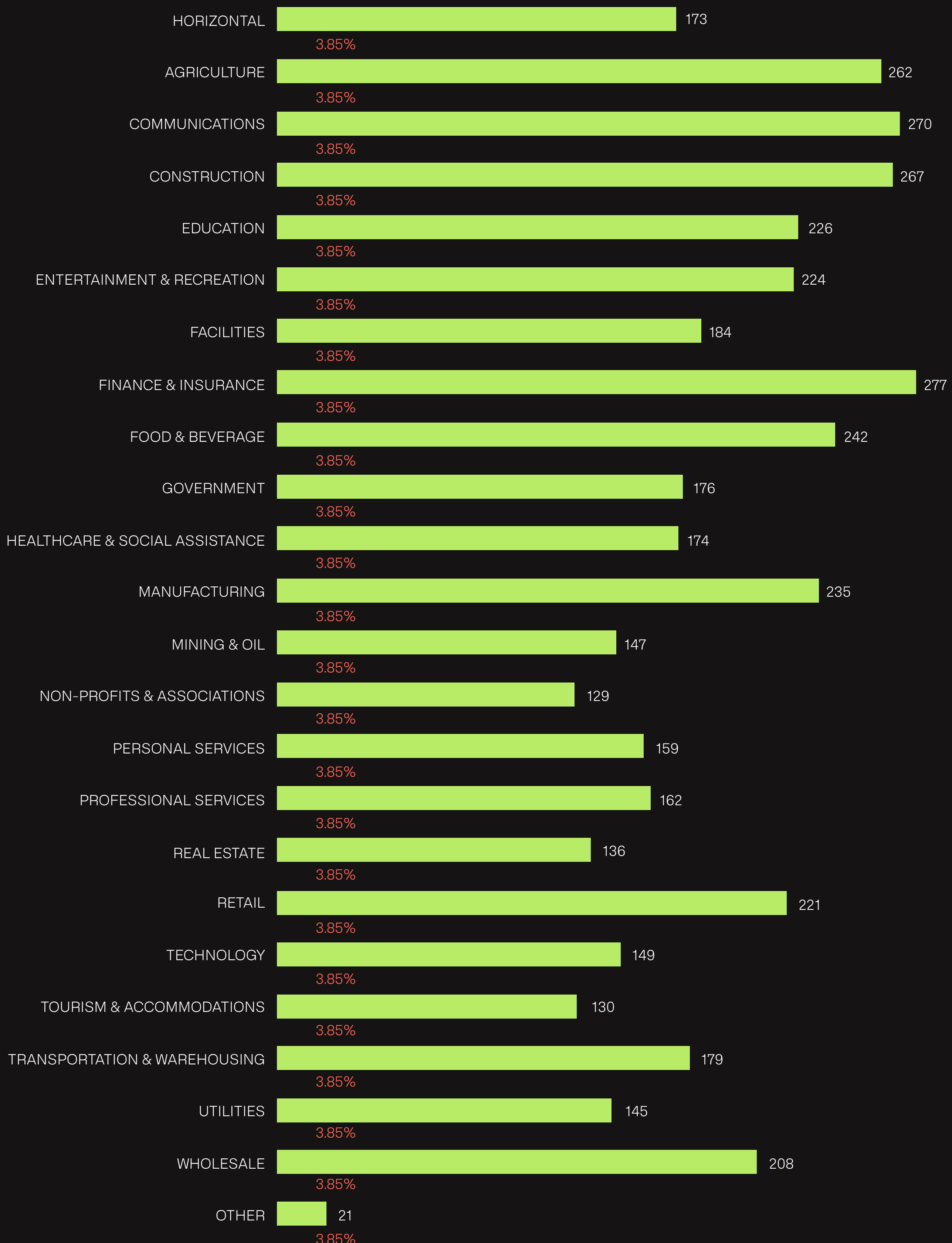
10.57%

NEGATIVE GROWTH (BUSINESS CONTRACTING)

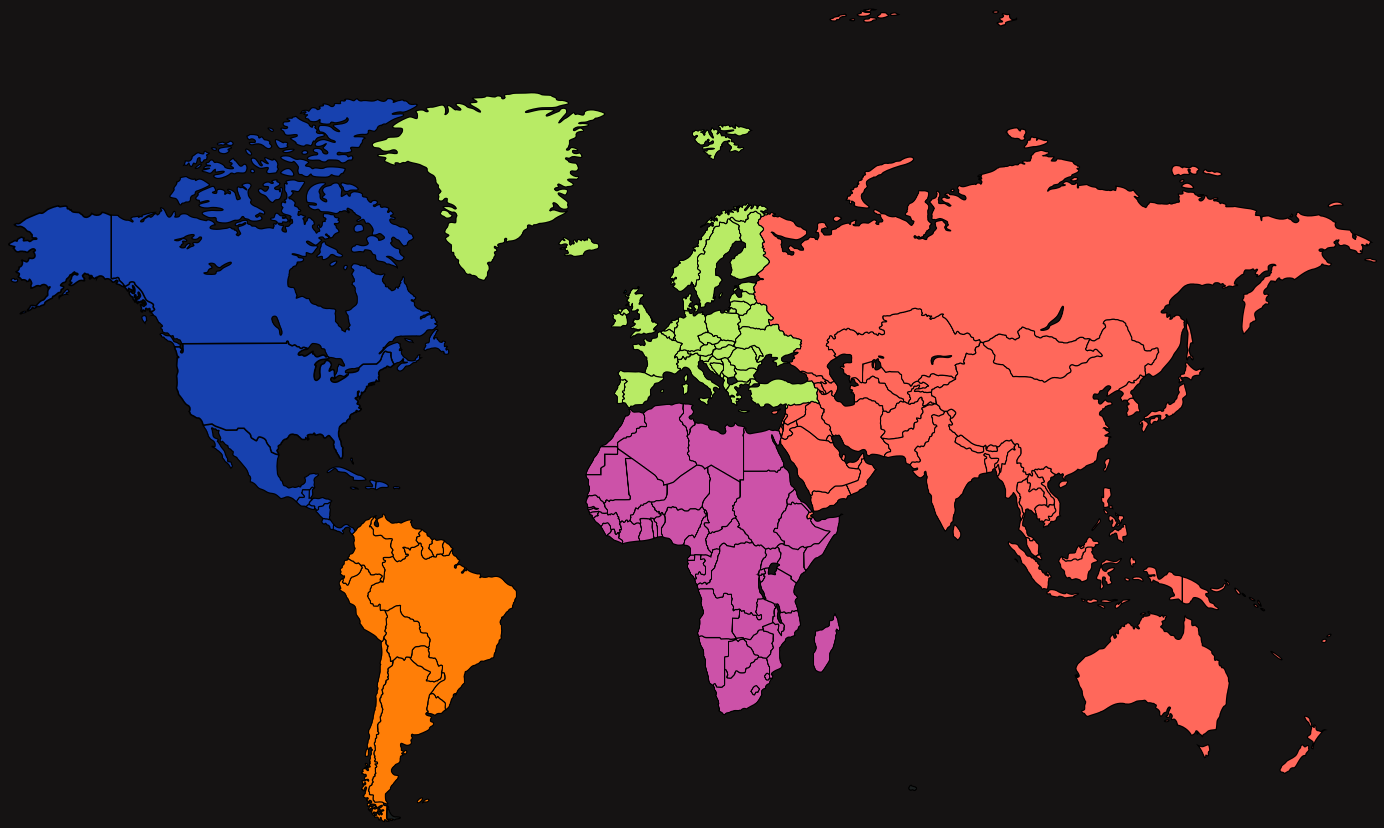
1.06%

NOT SURE

WHICH OF THE FOLLOWING BEST DESCRIBES THE INDUSTRY OF THE COMPANIES THAT YOU SERVE?



WHERE ARE YOUR CUSTOMERS LOCATED?



AFRICA
12.4%

APAC
18.6%

SOUTH AMERICA
20.0%

EUROPE
20.9%

NORTH AMERICA
28.1%

Closing

Our goal for the SaaS 3.0 Embedded Finance Report is to provide valuable insights into the SaaS landscape and the evolution of SaaS providers toward an embedded finance model. The adoption of embedded finance products is widespread and drives revenue growth for SaaS companies. As SaaS providers continue to invest in and enhance their embedded finance products, we expect to see increased adoption and revenue growth across all categories in the years to come.

We hope this analysis of key trends and benchmarks is informative and useful. To recap a few of the highlights of the report:

1. SaaS companies view embedded finance as a critical aspect of their business, with the majority offering three categories of fintech products today and working on two to three categories in the next 12 months.

2. B2B SaaS platforms emphasize embedded finance, offering an average of three to four fintech product categories today and working on three to four categories in the next 12 months.

3. The survey respondents reported that over 40% of customers adopt embedded finance products and that revenue increases by an average of over 40% per product built.

4. B2B SaaS companies generate more revenue from embedded finance products, with a 9% point increase in Average Contract Value (ACV) lift compared to all respondents.

5. Lending and payments, including AR/AP, are the most common embedded finance categories offered today, with respondents prioritizing lending and banking via card issuing in the next 12 months and embedded payroll beyond that.

Nico Simko
CEO & Co-Founder of Clair

“Getting started with embedded fintech can feel daunting, especially for companies that don’t have as much experience working with modern fintech tools. It’s important to find an embedded fintech partner that can make the process as stress-free and seamless as possible. At Clair, we are committed to making embedded fintech approachable by optimizing our integration processes, having clear and open channels of communication with partners, and providing the resources and support partners need to market and launch their new embedded feature.”

Meet the sponsors

This report was a collaboration with fintech platforms at the forefront of today's rapidly evolving embedded finance landscape.

Melio is a leading B2B payments technology company that enables small and medium-sized businesses to quickly and seamlessly transfer and receive payments, helping them improve cash flow and workflow. As one of the fastest-growing B2B payment solutions in the United States, Melio is transforming how money is moved between businesses. It serves financial institutions and software companies that want to provide Accounts Payable and Receivable products for their small business customers. Melio was founded in 2018, with headquarters in New York, an R&D center in Tel Aviv, and western U.S. headquarters in Colorado. For more information, visit **www.meliopayments.com.**

Unit is the leading financial infrastructure platform that empowers companies to embed banking and lending into their products. Unit accelerates time to market and enables companies to launch bank accounts, cards, payment, and lending products in weeks. Headquartered in New York City and Tel Aviv, Unit is backed by top investors including Insight Partners, Accel, and Better Tomorrow Ventures and serves 160+ customers including AngelList, HoneyBook, and Roofstock. For more information, visit **www.unit.co**.

Payrix is an Embedded Payments solution that empowers software companies to create stickier and more profitable platforms. We make it easier for B2B platforms to create and own the most frictionless payments experience for their merchants. Payrix acts as an extension of the platform, providing powerful payments technology that delivers the exact look and feel that platforms want, and comes with white glove service from experts who help drive merchant activation and revenue. For more information, visit **payrix.com**.

Parafin offers an out-of-the-box embedded finance solution that enables platforms to provide access to capital to their sellers. By working with platforms sellers already use, such as marketplaces and payment processors, Parafin helps bridge cash flow needs. Parafin drives capital programs by mitigating risk and abstracting away the complexity of capital markets, eligibility, underwriting, and origination. Since its inception in 2020, Parafin has collaborated with DoorDash and Amazon, and is backed by Ribbit Capital and Thrive Capital. Learn more about Parafin at **www.parafin.com**.

Gusto is a modern, online people platform that provides more than 300,000 SMBs with the tools and services they need to hire, pay, insure, and support their teams. Gusto Embedded, a developer platform and support infrastructure, enables software platforms to offer in-app, modern payroll products to their customers as well. With Gusto Embedded, SaaS developers can leverage Gusto's 10+ years of experience as well as our tax filing, payments, and compliance infrastructure in order to build deeply integrated, tailored payroll products that improve the user experience and drive revenue. Learn more at **www.embedded.gusto.com**.

Clair is a New York-based digital banking platform that is breaking the paycheck-to-paycheck cycle by offering free on-demand pay to America's workforce. Clair embeds seamlessly into human capital management and workforce management platforms and enhances the overall employee experience.
For more information, visit **www.getclair.com**.