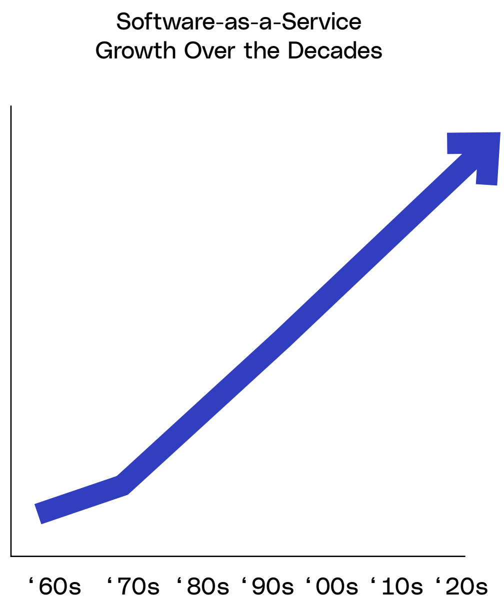
Payrix

SaaS Payments 101

Roadmap for monetizing payments

The growth of SaaS

The growth of the Software-as-a-Service (SaaS) market is undeniable. Its distribution model allows access from any device connected to the internet and is estimated to grow from USD $157 billion in 2018[1] to USD $270 billion by 2026[2]. The model that started in the '60s ("time sharing"), matured through the '80s and '90s ("local area networks") as the cost of computers went down. SaaS services are typically delivered on a subscription basis and hosted in the "cloud." One of the first and most recognizable modern-day SaaS companies is Salesforce. In 2019, Salesforce became the market leader in the global public cloud SaaS market and represents 18.4% of the total global CRM applications market, ahead of Oracle and SAP.[3]



Some of the most common and well-known modern SaaS applications are built from a similar blueprint to Salesforce and include services like:

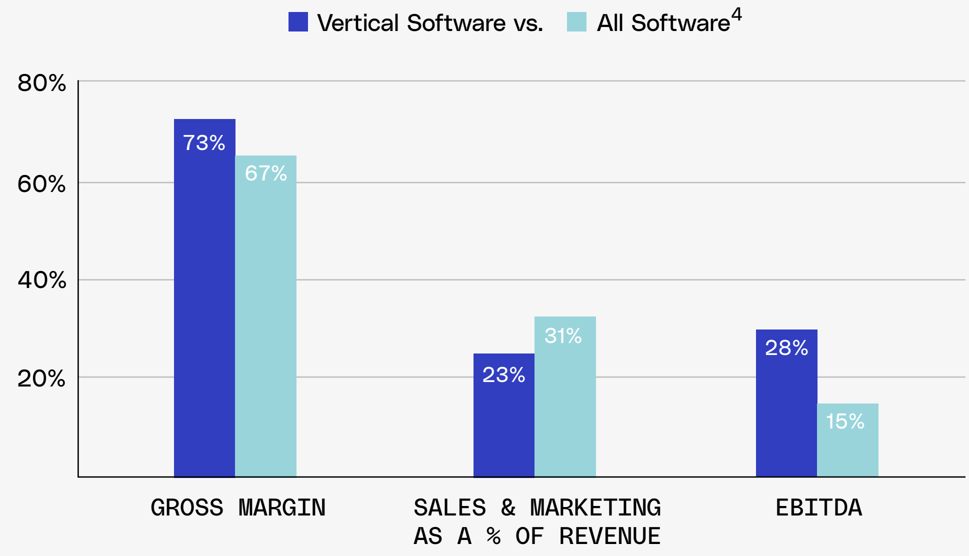
- CRM (Hubspot, Salesforce)
- Customer Service/Support (Zendesk, Jira)
- Talent Management (ADP, Zip Recruiter)
- BI/Analytics (Domo, Oracle)
- Finance/Accounting (Netsuite, QuickBooks)

A shift in the market

Within the past decade, however, the space has seen the pendulum swing toward a far more verticalized approach with CRM, ERP and business management software focused on particular industries and categories.
More companies are seeking vertically-focused offerings because they:

- Feel more like a natural extension of their business
- Are a trusted entity in their specific vertical (i.e. medical practice management, property management, non-profit management, etc.)
- Know their customer well, allowing for more efficient underwriting and boarding for transactions and innovation of new product offerings

When compared to horizontally focused software and services, vertically focused companies typically have a high gross margin, spend less on sales and marketing to acquire new customers, and therefore have a higher EBITDA.



A holistic offering

As the vertical wave continues, more and more small-to-mid sized businesses (SMBs) are operating their day-to-day business via their software – including payments and other financial services. Today's modern vertical SaaS providers are the engines that businesses run on, serving verticals ranging from childcare centers, to field service management, to lawn care operators and other green service businesses – to a software platform that provides intelligent scheduling, business insights, billing, marketing, and technician routing.

It stands to reason that these software companies are looking for a better way to handle payment processing for these businesses. Historically, payments have functioned as a cost center for SaaS businesses, outsourced to a third-party ISO (independent sales organization) or large payment processor that offered little to no control of the experience, negligible ability for monetization, slow speed-to-market, and a merchant boarding process fraught with friction.

A few years back, leading SaaS companies came to realize that solving the friction by taking more control of the payment experience in their software could become a major point of differentiation – which in turn led them down the path of integrated or embedded payments.

The move to embedded payments

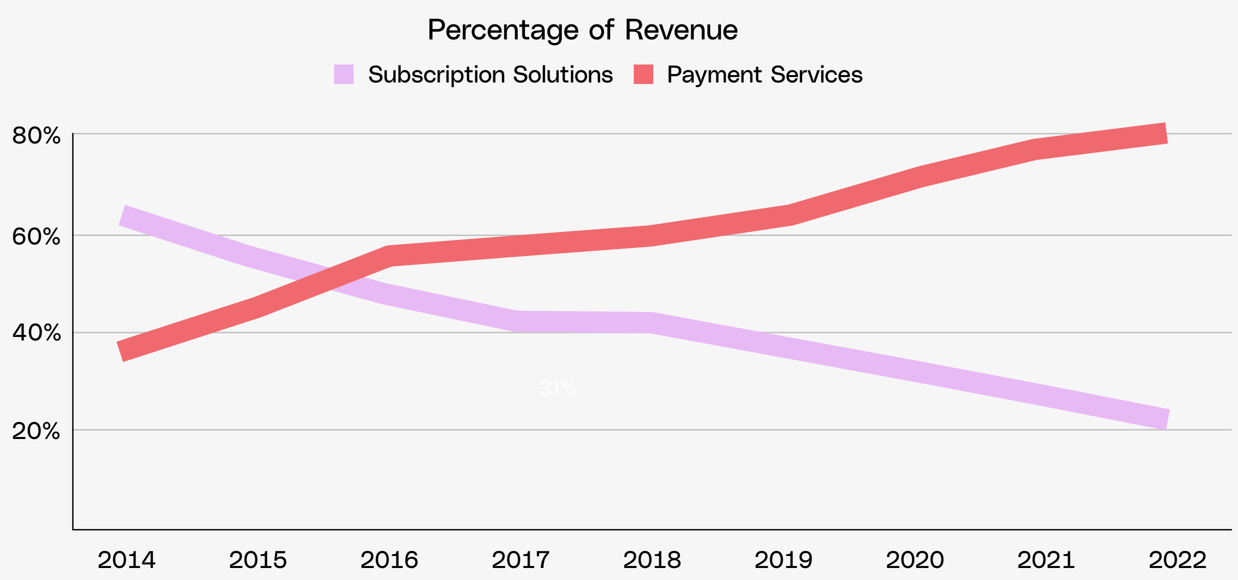
Rather than outsourcing all aspects of payments, SaaS providers have found new solutions to take ownership of and manage the transactions occurring within their software ecosystem. Many are discovering the upside to becoming payments companies – a business model known as payment facilitation – which was approved in 2011 by Mastercard and Visa. Today there are over 1,000 registered payment facilitators. A list of those registered with Mastercard can be found here. The most common examples include Stripe, Shopify, Square, PayPal and Payrix. By integrating payments directly into their verticalized software offering, the SaaS company provides a cohesive brand experience for its customers, while maximizing the revenue to be made from payments – sometimes exceeding what they can make from recurring SaaS fees.

The ROI, however, to become a full-fledged registered payment facilitator just doesn't make sense for most SaaS companies. As a result, another unique and more hybrid payment solution has emerged known as an Embedded Payments Partnership or "Payment Facilitation as a Service." For SaaS companies with an interest in payment facilitation and its primary benefits, including monetizing payments, creating a great user experience and possibly even creating a payments brand, the hybrid approach is a more feasible solution. With an embedded payments partner, SaaS companies are able to minimize their risk and still maximize the monetization of their payments flow. The partnership also enables SaaS companies to finally own their whole customer experience without building out costly systems and infrastructure. They're able to leverage the existing technology of their embedded payments provider to offer their customers a payment facilitation-like experience, while they capitalize on the revenue opportunity for themselves.

The revenue upside of payments

Although becoming a registered payment facilitator isn't the right solution for everyone, a payments monetization strategy is. Some existing payment facilitators are already realizing more revenue on payments than on their software subscriptions.

A prime example is Shopify. In 2020, their payment services revenue exceeded revenue from subscription solutions, and the gap continued to widen as their 2019 revenue increased by 86%.[5]



Industry pundits have forecast that in the not-too-distant future software companies and marketplaces will drive 50% of all payments volume.[6] Large players like PayPal, Square, Stripe and others are leading the way, however the sheer number of vertically-focused software companies that can add payments to their product mix is huge.

But specifically, how does a software company monetize payments?

Payments monetization models

Let’s take a closer look at a few payment monetization options that exist today for vertically-focused software companies.

The oldest approach – and easiest way to monetize payments – is to outsource your payments, which of course has advantages and disadvantages. These referral solutions enable out-of-the-box payments processing for a flat fee plus a percentage of the transaction, or the ISO will price each client separately. However, it can be difficult to monetize in this scenario as most of the payments revenue usually stays with the ISO or processors. Also, the inability to fully manage and control the payments relationship with your customer can have a negative impact on your customer’s user experience.

Advantages of the referral model:

- Some revenue share
- Limited risk
- Reduced complexity
- Minimal to zero up-front investment

Disadvantages of the referral model:

- Less flexibility in customizing your brand’s payments experience
- Least amount of payments revenue realized
- Less control/choice over dynamic options for payments, funding, etc.
- Disjointed boarding and customer experience
- SaaS platform has no rights in customer contracts

As your organization and payments expertise grows, you’ll probably want to invest more in owning and managing your payments experience and step up to a solution that affords increased payments revenue. Enter payment facilitation.

Wholly-owned payments (payment facilitation)

Becoming a registered payment facilitator provides significant upside for many B2B software companies, but isn't for everyone. You must have the payments expertise and the capital to invest in the process, technology, and staff as well as ongoing maintenance.

Advantages of payment facilitation:

- You have a complete, custom tech solution tailored to your software
- You have complete control over the user experience and brand
- Highest monetization of payments
- You own the customer 100%

And the disadvantages:

- Compliance and regulatory risk – You must maintain compliance with regulatory and payment brand's ever-changing rules and regulations
- Financial risk – You have all the financial upside but are also responsible for any chargebacks, fraud, etc.
- Speed to market – It takes 12 to 24 months to become a payment facilitator, unless already registered

The process to become a registered payment facilitator is arduous. You'll need sponsorship from an acquiring bank, approval from the payment brands, as well as the tools to onboard, vet, and underwrite your customers. There are tools in the marketplace that can help, but the decision to become a payment facilitator should not be taken lightly.

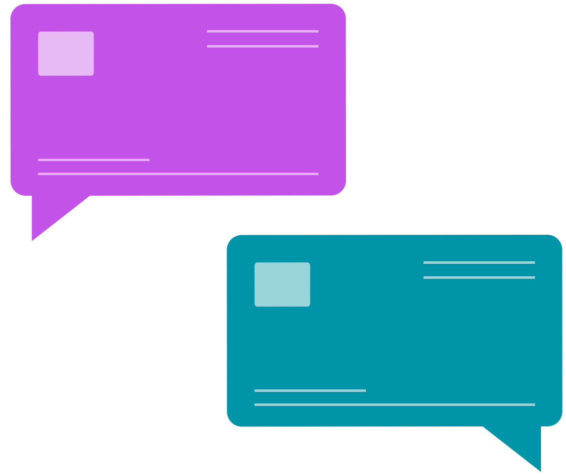
CUSTOMER SUCCESS

NEON ONE

An ecosystem of technology and services that enable those who want to change the world and make it a better place. Their cloud-based software suite supports donor engagement, member management, event planning, volunteer tracking and more, allowing their clients to put focus back into doing good.

For Payrix client Neon One, payment facilitation as a service was a great fit. Although full payment facilitation was an attractive consideration, Neon One had an appetite for optimizing payments quickly without taking on risk. Payrix helped the company create its own payments brand – NeonPay – that streamlined previously disparate outsourced solutions and created a significant new revenue stream.
NeonPay revenue is now a large part of the overall business plan, helping lay the foundation for creating a comprehensive ecosystem that makes the lives of nonprofits easier.

Embedded payments partnership (payment facilitation as a service)



This option is the most effective for the vast majority of SaaS companies. You get all of the benefits of being a payment facilitator – monetization and customer experience – without the headaches of managing underwriting, risk compliance, annual audits, etc. This is also an optimal solution when speed-to-market and technology investment considerations are priority.

Advantages:

- Typically includes white-label options
- Less risk than a full-fledged payment facilitator
- Better payment revenue optimization than completely outsourcing
- Improved user experience
- Customer portability options

The primary disadvantage of this option is that for some software companies, you might not realize the full revenue potential of monetizing payments.

This more involved partnership is a viable and attractive solution for most software companies on their payments journey. It may be a logical graduation from a simple and convenient entry partnership, or a short-term step on the path to payment facilitation. It may also be the ideal blend between revenue upside and risk aversion that suits the needs of the SaaS organization and its leadership.

Payrix recommends taking a pragmatic approach to fully understand the costs versus the revenue potential for each option.

Talk to an expert that can consult with you on your specific needs.

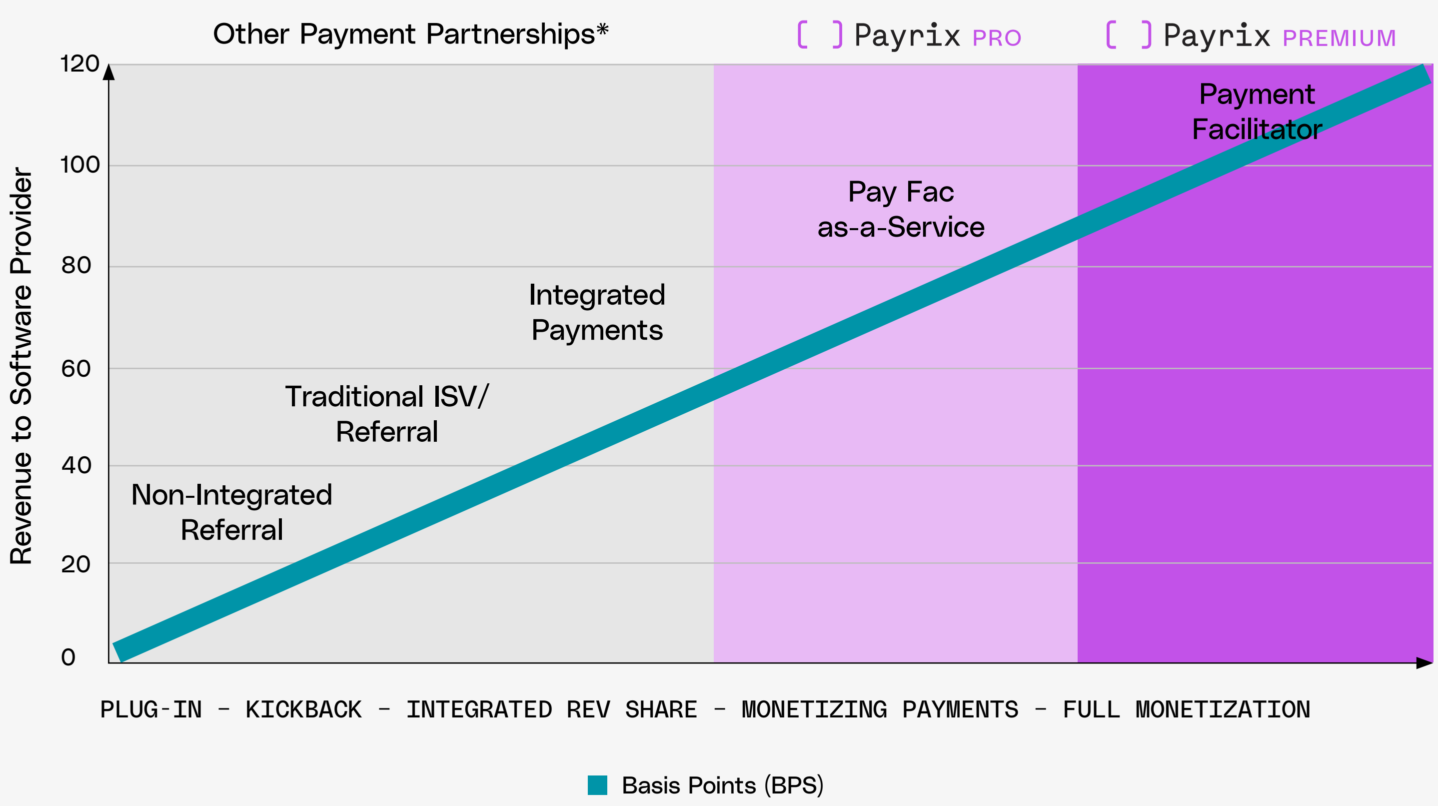
Compare our solutions

Both Payrix Pro and Payrix Premium offer the same great platform that makes monetizing your business and strengthening your product easier, no matter where you are in your payments journey. Payrix will work closely with you to configure the best solution for your unique needs.

	[ ] Payrix PRO	[ ] Payrix PREMIUM
Payment Revenue	0.50% – 1.00%	0.75% – 1.25%
Annual Revenue Opportunity (per $10,000,000 GMV)	$50k – $100k	$75k – $125k
Salary Expenses	$0 – $125k	$400k – $750k
Customer onboarding	Fully Integrated	Fully Integrated
Control	Medium	High
Customer branding	White Label	Fully Integrated/PF
Risk	Hybrid	Full Liability
Regulatory burden	Minimal	Registered & Compliant
KYC, AML and Risk Tools	Embedded and Managed	Embedded
Technology investment	Low	Low
Registered PF	Payrix	You
Time to deploy	0 – 1 Months	0 – 1 Months

Understanding evolution to embedded payments for your software

No two payment journeys are the same. If you are looking for more revenue kickback than your integrated revenue share offers, the visual below shows you how to progressively reach full monetization potential as you evolve your embedded payments partnership.



Payrix

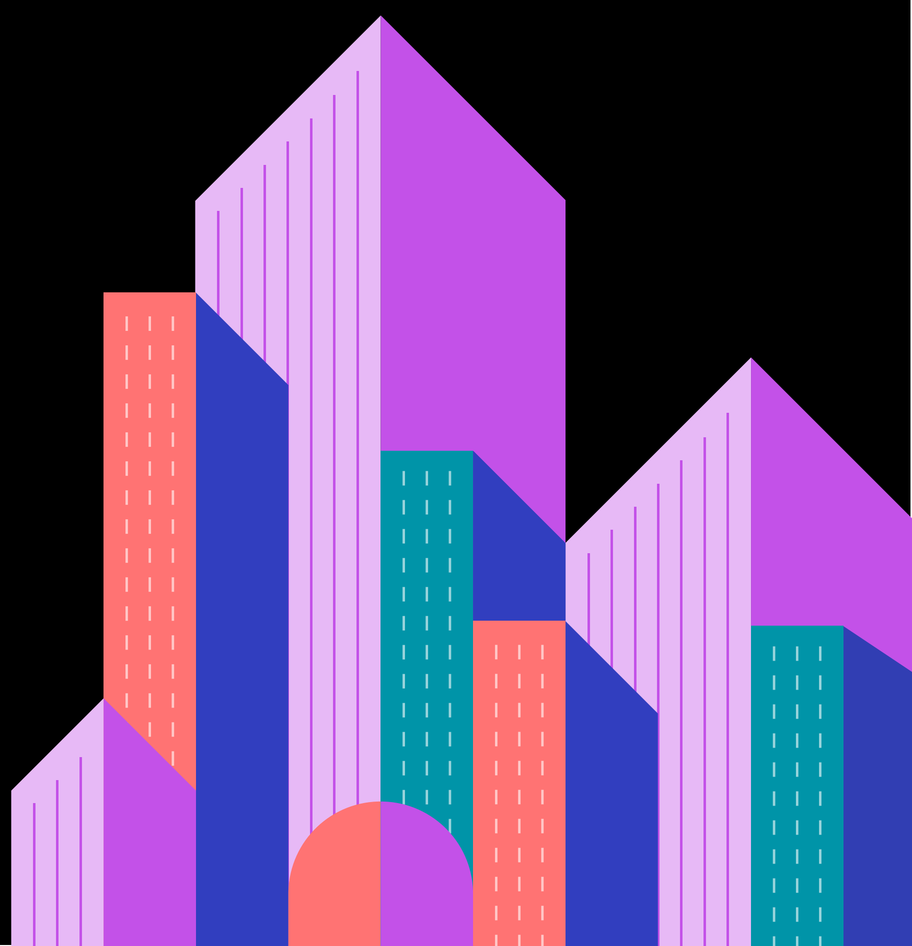
About Payrix

Payrix is a passionate team of payments and software experts who provide vertical software companies with an all-in-one platform and a white-glove approach to capitalize on the opportunities within embedded payments for growth, innovation, and transformation.

Led by forward-thinkers from PayPal, Worldpay, Elavon, Chase Paymentech and more, Payrix is committed to delivering more freedom and peace of mind to its clients through a proven solution that helps eliminate friction, unleash their possibilities with new revenue, and makes their customers' lives easier.

Payrix is a privately-held company headquartered in Atlanta, GA and is backed by Providence Strategic Growth and Blue Star Innovation Partners.

For more information visit payrix.com.



Sources:

1 Statista 2020 (Forrester, Forbes)

2 Marketwatch (2018); Gartner (2018)

3 Synergy Research Group (2018)

4 Bloomberg (2018)

5 Shopify Financial Results (2020)

6 McKinsey (2018)