WHITE PAPER

AUGMENTING SOFTWARE SOLUTIONS AND THE END-USER EXPERIENCE WITH INTEGRATED PAYMENTS

A White Paper on The Benefits of Integrated Payments for ISVs, SaaS Providers, and the Businesses and Customers They Service

February 2020

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PROCESSING

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FOREWORD

Like most businesses within the tech industry, Independent Software Vendors (ISVs) and Software as a Service (Saas) providers are subject to increasing competition caused by globalization. As one of the fastest growing and fastest changing industries, software companies must carefully create and implement growth strategies to ensure they don't go under just as they're getting started. But the U.S. software market is still full of opportunity, if companies know where to find it. By 2021, business productivity software, business software, and security software market shares are estimated to be worth approximately 205.3 billion, an increase of 21.5 billion in just 3 years[1].

For ISVs and SaaS providers, growth can be achieved in many ways, including expanding market area, bundling products, raising pricing, and—the topic of this whitepaper—partnering with a processing provider for a payment integration. Since the first plastic credit card was unveiled by American Express in 1959[2], payments technology has advanced considerably. A decade ago, it wasn't uncommon for businesses to call credit card transactions into a 3rd party processing service. Now, with the advent of EMV chip cards, contactless payments, mobile wallets, and biometric data, businesses are turning to more sophisticated processing solutions.

This paper will discuss how ISVs and SaaS providers can benefit from a payment integration, and how these benefits can be extended to their clients as well.

[1] retrieved 23 January 2020 from www.statista.com/forecasts/963605/software-revenue-in-united-states
[2] retrieved 23 January 2020 from https://www.creditcards.com/credit-card-news/history-of-credit-cards.php

INTRODUCTION

Though available features and functionality may vary, the main purpose of a payment gateway is always the same: to facilitate secure transmission of transactions between a merchant and their payment processor.

Many ISVs and SaaS providers pursue payment integrations with third-party organizations in order to supplement revenue and provide innovative processing solutions to their clients. This integration creates an opportunity for a mutually beneficial partnership, where both parties enjoy additional revenue, improved client retention, and enhanced brand loyalty. But for many software providers, the extent of their agreement with a processing provider is to simply forward the referral along, at which point support for the software and support for the gateway will be handled separately. This disconnect can lead to a poor customer experience.

This white paper explores the detrimental impacts of the traditional approach to integrated payments and offers alternatives that enhance the customer experience and increase the overall stickiness of software solutions.

KEY BENEFITS OF INTEGRATION

1. New Revenue Stream

2. Added Functionality

3. Increased Stickiness

4. Improved Security

5. Growth Opportunities

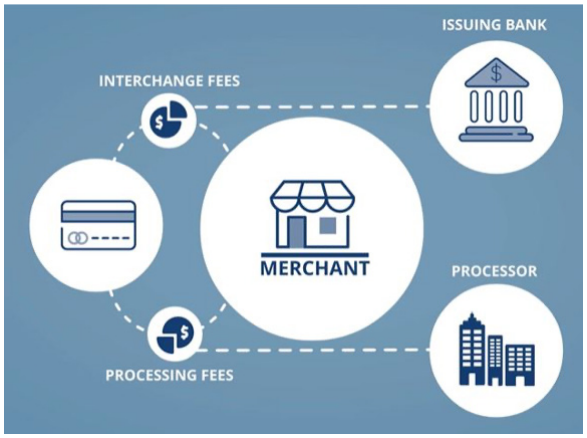
NEW REVENUE STREAM

Incorporating integrated payments into a software solution means entering a partnership with a third-party processing provider. For software providers, one benefit of this partnership is access to a new revenue stream in the form of revenue sharing. Upon entering into this agreement, a company then refers clients utilizing their software to the credit card processor for a merchant account. After approval, the software company is entitled to a percentage of the revenue generated with every transaction.

To some companies, this may sound like clients are being charged more for card processing services, but the majority of software customers are already accepting cards[3], and that number is even higher when considering large businesses in the manufacturing and mining industries that employ 500 or more individuals, or businesses in other industries that have an average of $7 million in annual sales volume. These large businesses present the highest opportunity amount for software providers, and they are already paying processing fees to a provider. A revenue share agreement redirects those fees to a partner processor so that software vendors receive a share of profit on these accounts.

The Basics of Revenue Sharing

The processing industry is well-known for vague contract language and hidden fees. A high-level knowledge of how revenue sharing works will help software vendors avoid non-competitive pricing and non-profitable revenue shares.



[Figure 1] *Interchange fees are charged directly by a card-holder's issuing bank and do not change between credit card processors*

Interchange

Any business that accepts credit and debit cards is subject to interchange fees. These fees are charged by a cardholder's issuing bank to the processing merchant's acquiring bank every time a transaction is processed. Interchange fees are considered a hard cost and are passed on to the merchant to compensate the issuing bank for card handling costs.

Interchange rates are published directly by the card brands and do not differ between processors. These rates may change twice annually but will always be available on Visa[4] and Mastercard's[5] respective websites.

[3] retrieved 28 January 2020 from https://www.creditcards.com/credit-card-news/payment-method-statistics-1276.php
[4] retrieved 28 January 2020 from https://usa.visa.com/support/small-business/regulations-fees.html#1
[5] retrieved 28 January 2020 from https://www.mastercard.us/en-us/about-mastercard/what-we-do/interchange.html

Buy Rate

All processors have a cost, called buy rate, associated with opening and maintaining merchant accounts. Unlike interchange, this cost is not standardized across all processors. Since buy rates are not publicly published, some processors exaggerate these costs to pad their profits. In this scenario, the merchants of a software vendor would, on paper, have a higher hard cost that would need to be exceeded before the vendor received their agreed-upon revenue share.

In the below example, Processor A has offered a 70% revenue share, and the agreement reflects their actual buy rates. Processor B has offered a 100% revenue share, but the buy rates have been padded to compensate. With Processor B, a software vendor would be charging clients more due to higher buy rates, and profit is lower. This typically results in higher attrition rates and less new business due to noncompetitive rates.

	Processor A	**Processor B**
Merchant Processed Volume	$25,000,000	$25,000,000
Number of Transactions	50,000	50,000
Number of Merchants	500	500
Monthly Fees Margin Per Merchant	$5	$10
Fee on Processed Volume	0.03%	0.15%
Per Transaction Fee	$0.06	$0.15
Margin on Processed Volume	0.60%	0.60%
Margin Per Transaction	$0.05	$0.05
Monthly Fees Charged Per Merchant	$5	$5
Total Profit	$137,500	$60,000
Revenue Share %	70%	100%
Total Revenue Share	$96,250	$60,000

[Table 1] *Inflated buy rates can result in less profit, even when paired with a seemingly more generous revenue share*

ADDED FUNCTIONALITY

A payment integration augments the functionality of a software solution, allowing users to address numerous everyday tasks in a single, central hub. As stated earlier in this paper, not all integrated payment solutions have the same functionality, but industry leaders typically provide the following features:

Recurring/Subscription Billing

Recurring billing and invoicing, often called subscription billing, first gained notoriety with the rise of online subscription services like Netflix, Blue Apron, Spotify, Amazon, and others. Subscription billing is efficient and convenient for consumers and businesses alike, and it's growing in popularity. By 2022, 53% of all software revenue is expected to be generated from subscription billing[6] and 70% of businesses believe subscription billing models are the key to commercial growth[7]. As more and more organizations look to optimize workflows and increase cash flow, recurring payments will become even more in demand as a software feature.

Customizable Dashboards

Many businesses use customizable dashboards to organize data in an easily digestible way. Dashboards can be used across departments to quickly identify how well a marketing campaign is going, how many sales calls are being made, etc., and allow organizations to make decisions and build strategies informed by real-time data.

As businesses plan for the future, a payment integration equipped with a powerful and comprehensive dashboard, packed with insightful payment data and user-friendly graphics, will add value for software users.

Customer Tracking/Case Management Capabilities

Successful organizations recognize that managing customer relationships is just as important, if not more important, than managing their finances. This includes managing inquiries, appointments, account balances, calls, order statuses, and, with a payment integration, payments. 91% of companies with more than 11 employees utilize a customer relationship management (CRM) software[8], but 51% of CRM users cited data synchronization as a major issue[9]. The sales journey typically ends with payment, so a payment integration allows that final step to be incorporated into the overall CRM system. This allows payment details to be managed in the same venue as the rest of the customer relationship.

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[6] retrieved 28 January 2020 from https://www.digitalistmag.com/cio-knowledge/2019/02/25/why-platforms-are-critical-when-building-for-intelligent-enterprise-06196545
[7] retrieved 28 January 2020 from https://www.globalbankingandfinance.com/how-to-make-money-from-membership-economics/
[8] retrieved January 29 2020 from https://blog.getbase.com/18-surprising-crm-statistics
[9] retrieved January 29 2020 from http://www.academicroom.com/topics/what-is-crm

Click-to-Pay Invoices

Another feature of integrated payments designed to reduce the hours of labor and paperwork often associated with manual A/R processes, click-to-pay invoices are growing in popularity as more and more businesses digitize their collection procedures. Every year, poor billing and A/R processes lead to business losing up to 25% of their revenue[10]. Click-to-pay invoices are easy to incorporate and free staff up for more important tasks.

Beyond that, businesses are turning to click-to-pay invoices because making it easier for clients to pay means they are more likely to pay on time. This is a large concern for many businesses, as 92.6% of businesses that extend credit report receiving late payments[11]. A software solution with integrated A/R features, such as click-to-pay invoices and the aforementioned subscription billing, offer immense value to users, helping them recoup up to 51.9% of the value of the receivables not paid within 90 days of invoicing[12].

In-Depth Transaction Reporting

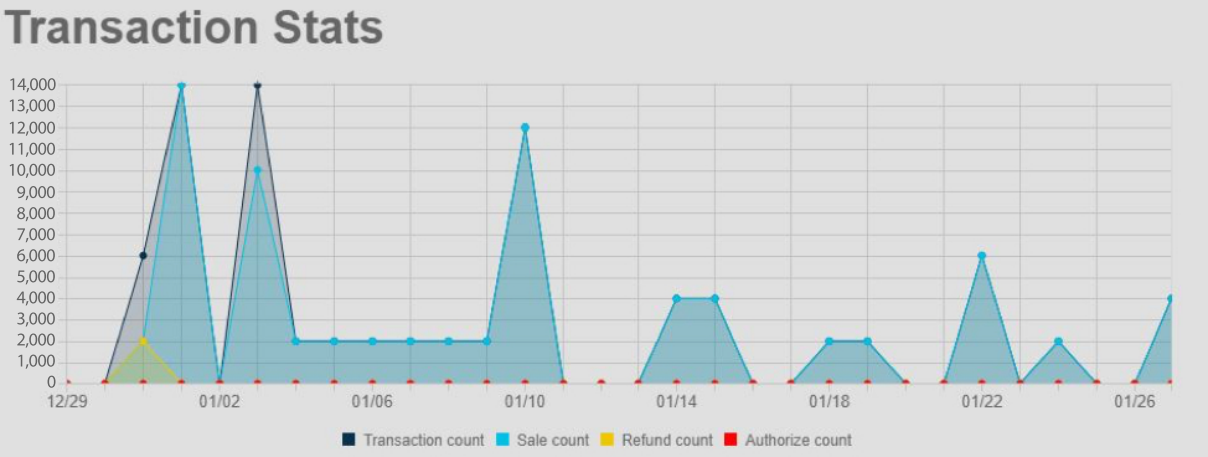
Dashboards provide a high-level overview of general cash flow and payment trends, but that information is useless if a user cannot drill-down into more specific, detailed data. Data visualization with tables, charts, gauges, and so on, allows users to analyze and present data as quickly as they can gather it. 94% of businesses believe comprehensive data and analytics are important to business growth[13].

A payment integration should provide an in-depth look at:

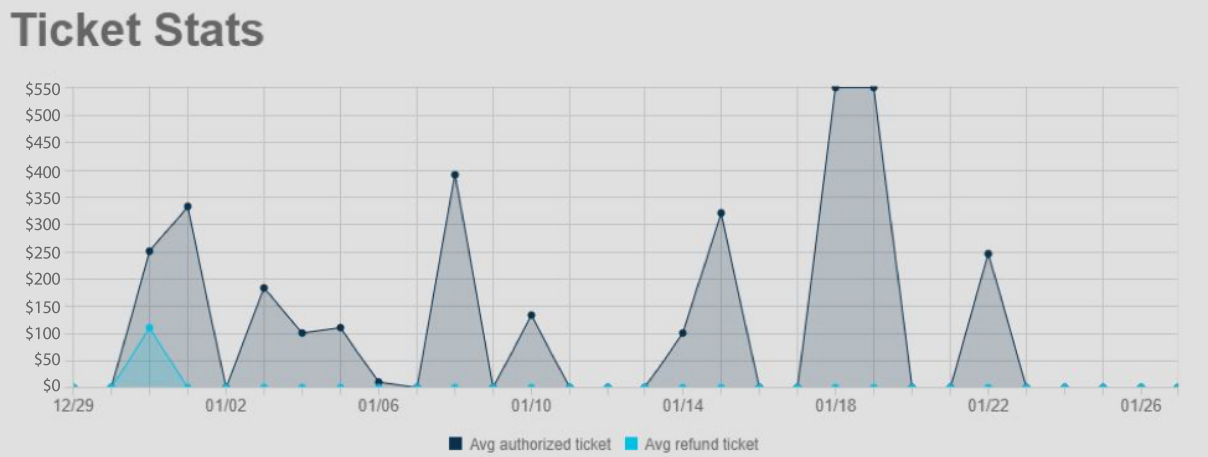
- Outstanding invoices
- Total customers
- Transactions
- Ticket amounts
- Overall settlements/batches

[10] retrieved January 29 2020 from https://fi.deluxe.com/wp-content/uploads/2017/10/WS_WP_20171001_How-IR-Overcomes-4-biggest-Challenges-in-Order-to-Cash.pdf
[11] retrieved January 29 2020 from https://atradius.us/reports/payment-practices-barometer-americas-2017.html
[12] retrieved January 29 2020 from https://anytimecollect.com/27-accounts-receivable-management-facts-for-the-cfo/
[13] retrieved 28 January 2020 from https://www.helpnetsecurity.com/2019/10/22/investing-in-analytics/

	Card Holder Name	Type	Payment Method	Masked Account	Amount	Status	Created Date
		SALE	card	448531******3244	$10.00	Pending Settlement	01/28/2020 11:27:19 am
		SALE	card	448531******3244	$10.00	Voided	01/28/2020 11:26:02 am
		SALE	card	424631******7764	$0.00	Voided	01/28/2020 9:28:04 am
		SALE	card	424631******7764	$0.01	Voided	01/27/2020 2:37:54 pm
		SALE	card	424631******7764	$0.01	Voided	01/27/2020 2:37:08 pm
		SALE	card	411111******1111	$0.01	Voided	01/24/2020 3:39:08 pm
		SALE	card	411111******1111	$0.01	Voided	01/22/2020 1:21:52 pm
		SALE	card	411111******1111	$10.00	Settled	01/22/2020 11:03:35 am
		SALE	card	411111******1111	$39.04	Settled	01/22/2020 1:10:28 am
		SALE	card	411111******1111	$55.00	Settled	01/19/2020 1:10:29 am



[Figure 2] *An example of transaction reporting with an integrated payment solution*



[Figure 3] *An example of ticket amount reporting with an integrated payment solution*

INCREASED STICKINESS

For companies earning $1 billion annually, investing in customer experience has been shown to generate an additional $700 million within 3 years of the investment. SaaS companies in particular saw revenue increases up to $1 billion[14]. For ISVs and SaaS providers, the numbers are clear: investing in the customer experience is profitable.

There are 2 key areas of customer experience that software vendors can invest in:

1. Product Functionality
2. Customer Service

When partnered with a quality processor, incorporating integrated payments into a software solution enhances each of these areas, contributing to an overall increase in brand loyalty, or "stickiness."

Product Functionality

Technology is constantly evolving, so software vendors must frequently reassess, refine, and expand upon their software to stay competitive. This is very important for what sales software, SalesScreen, calls "head loyal customers[15]." These customers are motivated by practicality and will only feel loyalty to a product because its functional, practical and suits their needs. This is common when a user is initially interacting with a vendor and considerations like price, features, and value are top of mind. This type of loyalty is fragile. If a solution being utilized by a "head loyal" customer no longer meets their needs, or if they find something better, they are likely to defect to a vendor's competition.

Integrated payments increase product functionality, therefore meeting one more need of the "head loyal" customer and making them less likely to seek out an alternative solution.

Customer Service

Investing in the customer experience also encourages emotional brand loyalty. This type of loyalty is built on trust or experience with a company, and generally takes an extensive amount of time to build. As a business relationship progresses, it's typical for rational considerations to become less and less important, and for emotional considerations to take over. In a study conducted by Deloitte, 44% of respondents said they would recommend a company based on emotional criteria, including trust, gratitude, and integrity[16].

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[14] retrieved January 30 2020 from https://www.qualtrics.com/xm-institute/roi-of-customer-experience-2018/
[15] retrieved January 30 2020 from https://www.salesscreen.com/blog/the-3-types-of-customer-brand-loyalty
[16] retrieved January 30 2020 from https://www.deloittedigital.com/us/en/blog-list/2019/driving-brand-loyalty-with-emotion.html

This is where it's vital for software vendors to partner with a reputable processing provider. Since emotional loyalty is driven by experience, it's mostly impacted by customer service. What happens when a user calls customer support can either strengthen or destroy the relationships software vendors have built with their clients. 60% of Americans would consider switching to a different company following two to three instances of poor service[17], but 73% of customers are loyal because of good customer service[18]. A payment processing provider with strong customer service values is one more tether binding clients to their software vendors.

[17] retrieved January 30 2020 from https://about.americanexpress.com/press-release/wellactually-americans-say-customer-service-better-ever

[18] retrieved January 30 2020 from https://multichannelmerchant.com/blog/how-customer-service-can-increase-sales-and-build-brand-loyalty/

IMPROVED SECURITY

Business owners are trending toward integrated solutions for several reasons. They allow management of both operations and sales metrics from a convenient, central hub. Integrated solutions also reduce the number of software vendors in use, which prevents a scenario where one vendor makes an update that impacts other software products in use, creating a domino effect that can require hours, or even days to troubleshoot. But, perhaps the most compelling reason for integrated solutions is that it prevents finger-pointing in the event of a data breach.

Payment processors are already subject to extensive security regulations and are required to be compliant with Payment Card Industry (PCI) Data Security Standards (DSS). A quality processing provider that has invested in their security can offer additional security benefits to software vendors and their clients.

Manual accounting has been standard accounting practice for many years, but it can leave businesses vulnerable to financial and security threats. Manual data entry in any form has a high risk of error. Even the tiniest data entry error can cost a company millions of dollars. A general concept used to calculate the hard costs of these errors is the $1-$10-$100 rule[19]. It costs $1 to verify the accuracy of data at the point of entry, $10 to correct any errors in batch form, and $100 per incorrect record if data is not corrected. Therefore, removing as much manual entry as possible, especially when dealing with accounts payable and receivable, is beneficial to the financial security of software users.

Integrated payments can also reduce a business's vulnerability to a data breach by storing payment data securely. Over the past 5 years, the average cost of a data breach has risen 12%, to a tremendous $3.92 million per incident[20]. Even for small businesses, who are the victims of 43% of cyberattacks, a data beach typically costs around $200K[21]. Integrated payments greatly increase value by empowering software solutions to safely store payment data and shield users from these costs. The powerful point-to-point encryption (P2Pe) and tokenization technologies that accompany a payment integration make this possible.

Point-to-point encryption (P2Pe)

P2Pe protects card data as it is transmitted. This technology is a combination of secure devices, applications, and processes that encrypt data from the point of entry (swipe, dip, manual entry, etc.) until it reaches the payment processing provider's secure customer vault[22].

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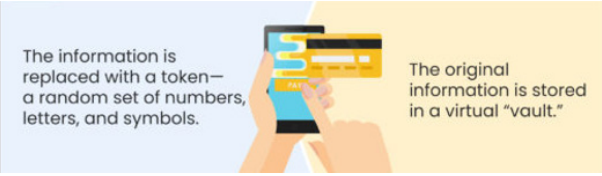
[19] retrieved January 31 2020 from https://ungerboeck.com/resources/when-good-info-goes-bad-the-real-cost-of-human-data-errors-part-1-of-2
[20] retrieved January 31 2020 from https://www.tripwire.com/state-of-security/security-data-protection/data-breach-costs-rise/
[21] retrieved January 31 2020 from https://www.hiscox.com/documents/2019-Hiscox-Cyber-Readiness-Report.pdf
[22] retrieved January 31 2020 from https://www.pcisecuritystandards.org/documents/P2PE_v1_1_FAQs_Aug2012.pdf

Tokenization

Tokenization protects card data at rest. If a user keeps card data for subscription billing, a software vendor's payment processing provider should keep that data stored in a secure vault. The data outside the vault will then be tokenized or replaced with a "token"—a random set of numbers, letters, and symbols. During a transaction, the vault matches the token to the correct customer's actual information, then presents the token instead. This data has no exploitable value. If it were to be intercepted by a malicious party, it would be useless. Tokenized data has the added benefit of allowing recurring billing without giving end users access to full payment information.



[Figure 4] *The tokenization process protects sensitive payment information*

[19] retrieved January 31 2020 from https://ungerboeck.com/resources/when-good-info-goes-bad-the-real-cost-of-human-data-errors-part-1-of-2
[20] retrieved January 31 2020 from https://www.tripwire.com/state-of-security/security-data-protection/data-breach-costs-rise/
[21] retrieved January 31 2020 from https://www.hiscox.com/documents/2019-Hiscox-Cyber-Readiness-Report.pdf
[22] retrieved January 31 2020 from https://www.pcisecuritystandards.org/documents/P2PE_v1_1_FAQs_Aug2012.pdf

GROWTH OPPORTUNITIES

A partnership with a payment processing provider should be viewed the same way any other business partnership would be—as a growth opportunity for the parties entering the partnership. Unfortunately, the industry standard is for software vendors to pass clients to a third-party gateway, hoping that they will receive quality service and solutions, even when that's not always the case. Integrated payments provide an alternative that allows software vendors to grow their client base, revenue, and customer satisfaction.

The first way a payment integration accomplishes this is during the onboarding process. The top two reasons for customer churn are 1) them not understanding a product and 2) them not obtaining value from a product[23]. Addressing this is especially important for SaaS companies, who experience churn rates greater than 5%[24] A payment processing provider that provides an easy, defined onboarding process can solve both issues. For most organizations, processing payments is a part of everyday business, so when payments are integrated into a software product, they'll use it more frequently and see immediate value.

Following a great onboarding process, happy clients are the best possible tool to generate referrals. A payment processing provider that views their agreements with software vendors as true partnerships will help generate referrals and, subsequently, turn those leads into accounts. In the scenario that a payment provider also offers the merchant account that allows users to process credit and debit cards, software vendors will be able to offer even more value and incentivize prospects to switch to their program by providing monetary savings on processing expenses. A payment processor with direct rates should be able to offer competitive pricing.

Finally, software vendors can take advantage of the generous partnership programs offered by top-tier payment processing providers. These providers want their software vendors to succeed, and offer full guidance, extensive expertise, and comprehensive sales and marketing support. Software vendors should confirm early-on that a partner will help market their solution. If a partner doesn't begin marketing your solution with the first 90 days, it's probable that they never will[25], which means missing out on the benefits of partnership marketing. Partnership marketing provides huge opportunity for growth. With partnership marketing, software vendors pool resources with their payment processing provider to create a marketing strategy. This has the benefits of being cost-effective and conserving resources, while allowing both partners to capitalize on the benefits and values provided by a wide pool of features, products, and capabilities.

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[23] retrieved January 31 2020 from https://cdn2.hubspot.net/hubfs/120299/SaaSFest_Presentations/SaaS FestPreso-Dan-RetentionIsKing.pdf?t=1513029751643&__hstc=20629287.c93bbddf0eb5209413fc83dbf95f 1f9.1580490749429.1580490749429.1580490749429.1&__hssc=20629287.1.1580490749430&__hsfp=3582181867

[24] retrieved from January 31 2020 from https://www.slideshare.net/totango/5th-annual-saas-metrics-report

[25] retrieved January 31 2020 from https://www.siriusdecisions.com/blog/onboardingstartrighttomaximizepartnerperformance

CONCLUSION

Business owners are trending toward integrated solutions for several reasons. They allow management of both operations and sales metrics from a convenient, central hub. Integrated solutions also reduce the number of software vendors in use, which prevents a scenario where one vendor makes an update that impacts other software products in use, creating a domino effect that can require hours, or even days to troubleshoot.

Several providers offer integrated payment solutions, and not all of them have the technical capabilities to provide these benefits. When considering a processing provider for integrated payments, it's vital that ISVs and SaaS providers verify available functionality, features, and services.

Software vendors should consider their choice of a payment processing partner carefully. A quality partner will provide world-class service and solutions to end-users and developers, while strengthening existing business relationships and generating additional revenue. Ideally, the partnership will also function as a lead generation tool to grow revenue and market share even further.

A properly vetted payment integration partnership is a low-risk, high-reward method to add value to software solutions.

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