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Platforms' Expansion Hinges On Payments Orchestration

Payments Orchestration Tracker® Series

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PYMNTS



Acknowledgment

The Payments Orchestration Tracker® Series is produced in collaboration with Spreadly, and PYMNTS is grateful for the company's support and insight. PYMNTS retains full editorial control over the following findings, methodology and data analysis.

Need To Know

Merchant Aggregators On The Rise

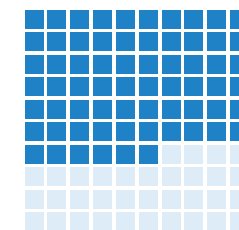
The pandemic [brought](#) merchant aggregators — the marketplaces that [onboard](#) and provide crucial platforms for individual merchants — to the forefront of the payments ecosystem. As small to mid-sized businesses (SMBs) sought to keep themselves afloat during brick-and-mortar closures, platforms such as Amazon and Mercado Libre offered a lifeline to help SMBs digitize rapidly while sparing them the need to devote scarce resources to technology development.

Demand continues to [generate](#) new, more specialized digital marketplaces, but the proliferation of diverse payment systems worldwide means that platforms are subject to the same challenges of scale that once daunted their merchant customers. As aggregators look to offer payments to merchants in new markets without adding cost and risk, payments orchestration has emerged as a way that can allow these platforms — and their merchants — to thrive.



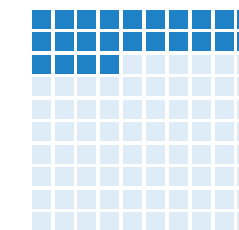
Most retailers [expect](#) their online marketplace business to see increases in 2022.

66%



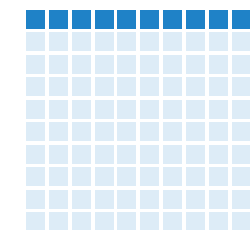
Increase

24%



Stay about the same

10%



Decrease

Need To Know

Merchant aggregators have different payment needs from those of individual merchants.

All but the largest merchants that offer electronic payments typically process them through third-party payment service providers (PSPs) and payment gateways, including such players as Stripe, Adyen, Braintree and a host of others, which [function](#) as the virtual “cash registers” for digital purchases.

To serve these merchants, aggregator platforms are [faced](#) with the challenge of supporting numerous integrations with their merchants’ established PSPs or gateway relationships — or, put another way, allowing them to “bring their own gateways.” If an aggregator cannot offer the right mix of services quickly, potential new merchants will be driven away from their platforms to those that can. Aggregators must also offer current customers greater value than competitor platforms to retain their business over time.

Any business that wants to [accept](#) online and credit card payments needs payment gateways. These transmit financial data to the required entities for payment authorization and mobilize money from customers to merchants.

Merchants typically [use](#) three types of payment gateways.



On-site payments: Large-scale businesses handle both the checkout experience and payment processing all on their own servers.



On-site checkout, off-site payments: The front-end checkout occurs on the merchant’s website, but payment processing takes place off-site via the gateway’s back end.



Redirects: The gateway takes the customer directly to a payment processor, such as PayPal or Stripe, both to check out and to process the payment. Small businesses can benefit from this type of gateway to leverage the convenience and security of a larger platform.

Need To Know

Payments orchestration allows platforms to onboard new merchants by turning on new gateways simply and seamlessly.

Payments orchestration technology [enables](#) aggregators to onboard new merchants at the flip of a switch. Orchestration's flexible, regulatory-compliant payment services can help aggregators attract more merchants by readily supporting the payment gateways these customers demand, granting platforms a key differentiator when they seek to enter new markets.

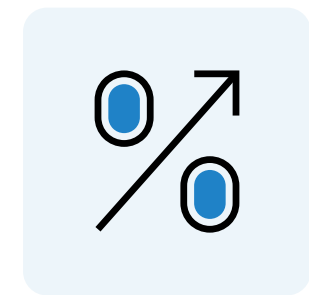
The benefits of leveraging payments orchestration are immediately evident to their merchant customers. Firms that use this strategy have [reported](#) payments acceptance rate improvements of as much as 5%. One case study [estimated](#) that this improvement could amount to an additional \$144 million in annual sales, with earnings quickly compounding due to enhanced operational efficiencies.

Payments orchestration systems can significantly [boost](#) payment approval rates and overall revenue for merchants.



\$330B

Revenue losses due to legitimate card declines in a given year



5%

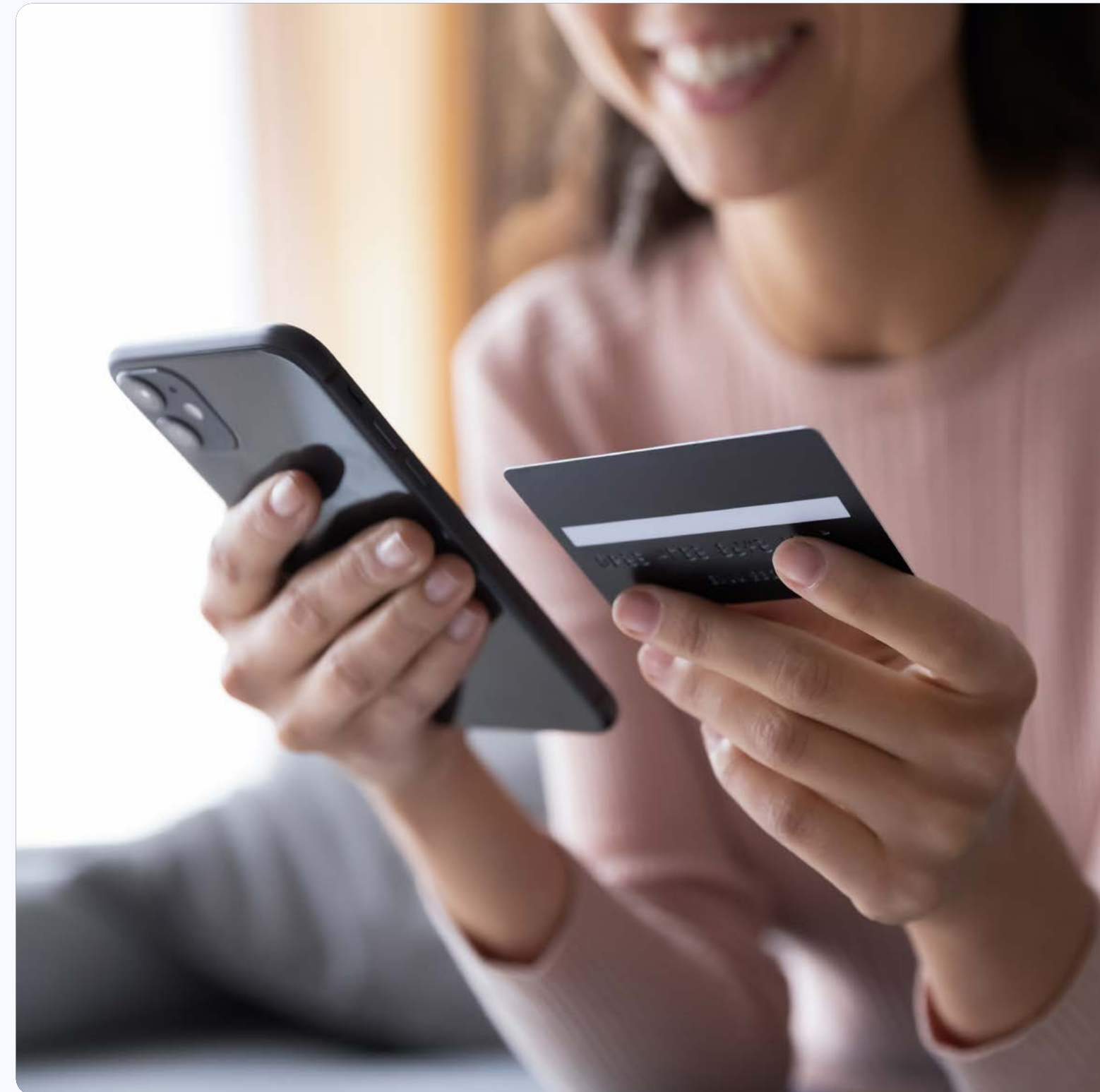
Payments acceptance rate improvement after leveraging payments orchestration

News And Trends

Merchant Acquiring: Tapping The \$100B Small Business Opportunity

Payment services are a rapidly growing business segment, according to new [research](#) projecting that SMBs will spend \$100 billion on these services by 2025. The study further predicted that eCommerce platforms will provide a significant fraction of these payment services, as 50% to 70% of digital commerce will be conducted through marketplaces such as Amazon and Mercado Libre.

Acquirers will need to offer specific marketplace-tailored solutions to tap into this massive market. Cross-border disbursements, submerchant onboarding and other advanced offerings could become table stakes for acquirers to compete with large eCommerce platforms when it comes to servicing SMBs' payment needs.



News And Trends

Modernizing payments infrastructure could transform businesses

Payments modernization is quickly becoming a top priority for businesses. A recent [survey](#) found that 72% of corporate executives say modernizing payments infrastructure — including the addition of new payment gateways and processing capabilities — could be groundbreaking for their businesses over the next three years. Thirty-seven percent of merchants agreed with this analysis, saying that they plan to make payment processing investments over the next year.

Integrated, or embedded, payments, which avoid redirects to third-party payment processing sites, will be at the center of these modernizations to reduce customer friction. Studies have found that the highest eCommerce conversion rates occur when payment pages load in just one or two seconds, with the average rate tumbling with every extra second wasted. Accelerating these transaction times is a key benefit of integrated payments. Establishing efficient payment systems also helps businesses scale unimpeded by problems due to disconnected payment processes.



News And Trends

Nearly three-quarters of European banks plan to move payments to SaaS

Software as a service (SaaS) could play a prominent role in the future of European banking, with a recent [survey](#) of the continent's financial institutions finding that 72% plan to change their payments infrastructure to SaaS over the next three to five years. More than half of banks plan to do the same with their card operations.

With digital wallets on track to account for one in three online transactions by 2023, traditional banks are looking to innovation to improve margins with greater operational efficiency and flexibility. In addition to payments and card functionalities, banks also expressed interest in outsourcing their fraud management, processing and merchant management segments.



PYMNTS Intelligence

How Payments Orchestration Can Help Aggregators Scale Quickly

Global eCommerce sales are [predicted](#) to grow by more than half over the next four years, with a projected value of \$8.1 trillion by 2026. Scaling upward, however, [remains](#) a challenge for most online businesses, with more than 90% of eCommerce merchants [earning](#) less than \$1 million in annual revenue.

Online marketplaces, or merchant aggregators, serve a vital role in eCommerce, helping small businesses from retailers to restaurants by exposing merchants' products to a wider audience. eCommerce marketplaces have been [booming](#) since the pandemic's onset, with online marketplace sales [comprising](#) 67% of global eCommerce in 2021. Consumers spent a total of \$3.23 trillion last year on the top 100 marketplaces, such as Amazon and eBay.

Meeting the marketplace opportunity is no mean feat for platforms, however. One of aggregators' most essential functions is to provide their merchants with everything they need to operate in a digital-first world, beginning with — and revolving around — payments. To scale and compete in global markets themselves, aggregators must be ready to offer a broad menu of payment gateways and processors to accommodate merchants of every stripe.

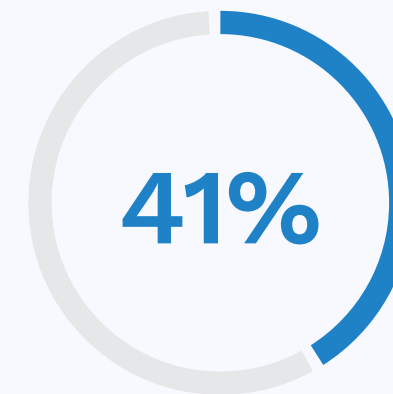


PYMNTS Intelligence

Platforms' problem of scale

Problems of scale affect not only individual merchants but also the platforms on which they sell. International payments are particularly difficult for aggregators, as they involve not merely multiple payment systems and processors — many of them highly localized — but also the challenge of transacting across borders. The average merchant in the Asia-Pacific region, for example, [generates](#) 42% of its revenue internationally, making it crucial to offer these businesses their preferred payment gateways for cross-border as well as domestic transactions.

Consumers have a wide variety of payment preferences.



Share of consumers who prefer credit cards



Portion of consumers who leverage digital wallets

Providing merchants with their preferred payment solutions is a must for aggregators, but attempting to build integrations to the growing variety of payment processors on a global scale is a costly and time-consuming undertaking.

PYMNTS Intelligence

Accelerating aggregators' growth

Aggregators that leverage a payments orchestration strategy can [scale](#) and expand into new markets very rapidly. Payments orchestration allows aggregators to save costs and complexity by outsourcing gateway integrations to a single application programming interface (API) that permits customization for each merchant. By supporting merchants' already-established payment services, aggregators not only can attract more merchants but also can onboard them faster than their competitor platforms, simply by “turning on” their gateways of choice. Orchestration also helps ensure compliance with the multiple regulatory requirements spanning different markets.

In addition, the technology allows aggregators to [offer](#) value-added merchant services, such as account updater and smart routing, to ensure maximum conversion and reduced downtime. These services have the capacity to turn payments — normally an overhead cost — into a revenue generator for merchants by keeping their customers transacting. Reducing payment declines via smart routing alone can have a substantial impact on merchants' overall revenue. Fifty-eight percent of consumers never [return](#) to a merchant that declines their payment, a massive lost opportunity for retailers.

As eCommerce continues its meteoric rise, marketplaces will continue to serve an essential function for small businesses looking to scale. As aggregators themselves look to scale their platforms, payments orchestration can make the climb easier.



9.3

Average number of payment methods top-performing merchants [accept](#) for domestic transactions



6.9

Average number of payment methods top-performing merchants [accept](#) for cross-border transactions

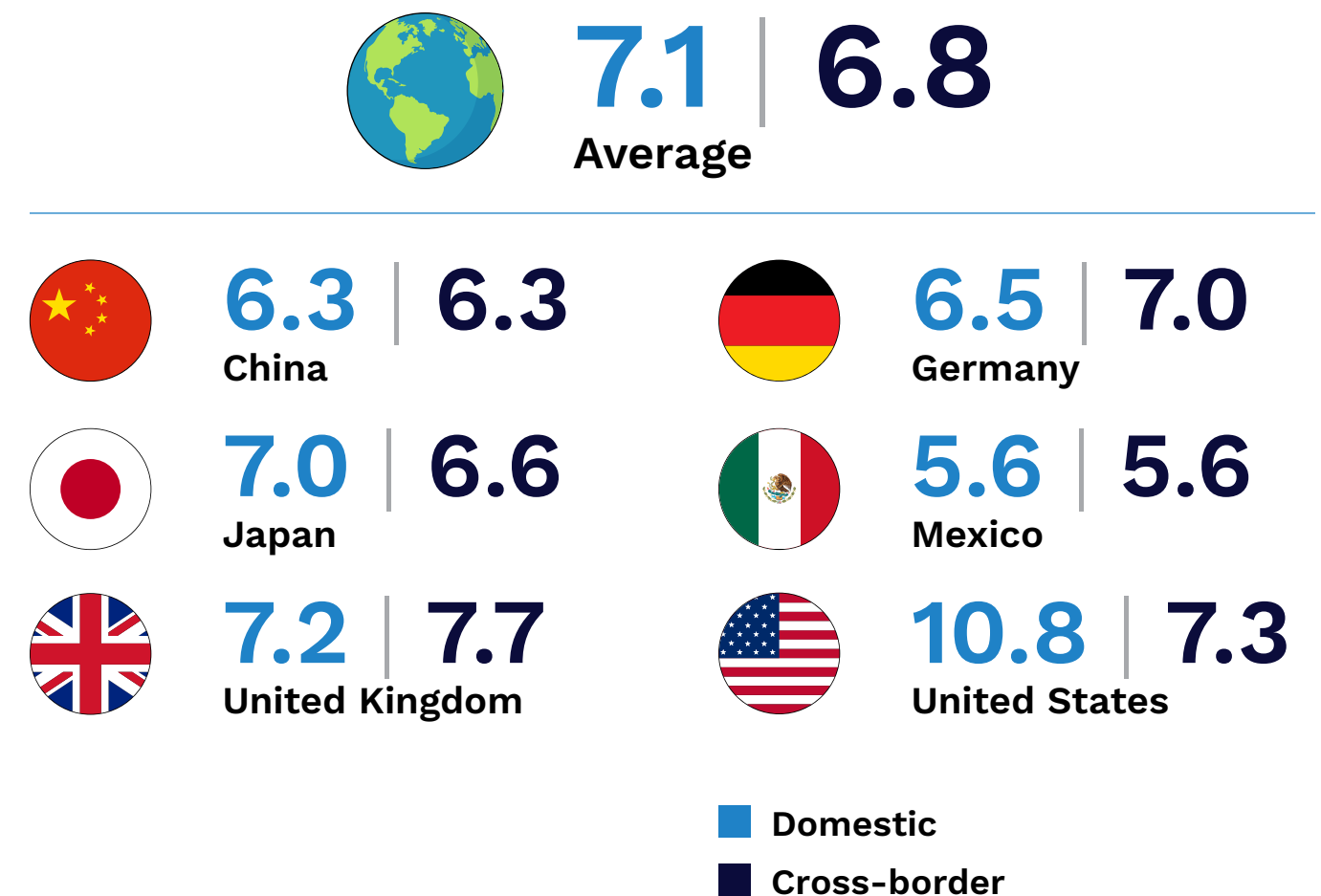
Chart Of The Month

Meeting Merchant Payment Needs Around The Globe

There is vast untapped potential in international expansion, but global payment systems' variability [poses](#) a steep barrier to market entry for many aggregators. While the average merchant in Mexico accepts only 5.6 payment methods compared to the U.S.'s 10.8, the processors and gateways merchants use in each country or region vary considerably from one another.

How many payment methods merchants in different nations support

Average number of payment methods accepted, by nation



Source: PYMNTS
 Cross-Border Merchant Optimization Index, October 2021
 N = 137: eCommerce retail merchant websites

Insider POV

Giving A Leg Up To SMBs Through Payments Orchestration



TROY PIKE
CEO



“All of the unique challenges that we have online just become more and more pronounced every day, so it’s a continuous battle to stay ahead of that and be sure that we’re helping small and medium-sized merchants compete with the big guys.”

Troy Pike, CEO of merchant aggregator platform [Volusion](#), and Justin Benson, CEO of [Spredly](#), explain how payments orchestration allows aggregators to help their small merchants contend with bigger rivals on a global scale.

Like Volusion, many merchant aggregators see their mission as helping small to mid-sized merchants thrive in a global marketplace. To do that, according to Pike, aggregators must be sure that merchants on their platforms have all the payment options available to them so that they, in turn, can offer them to their consumers. Benson concurs. He said his company seeks to build the type of payments infrastructure and optimization once available only to a handful of industry titans and bring those features to small merchants hungry for competitive functionality.

Insider POV

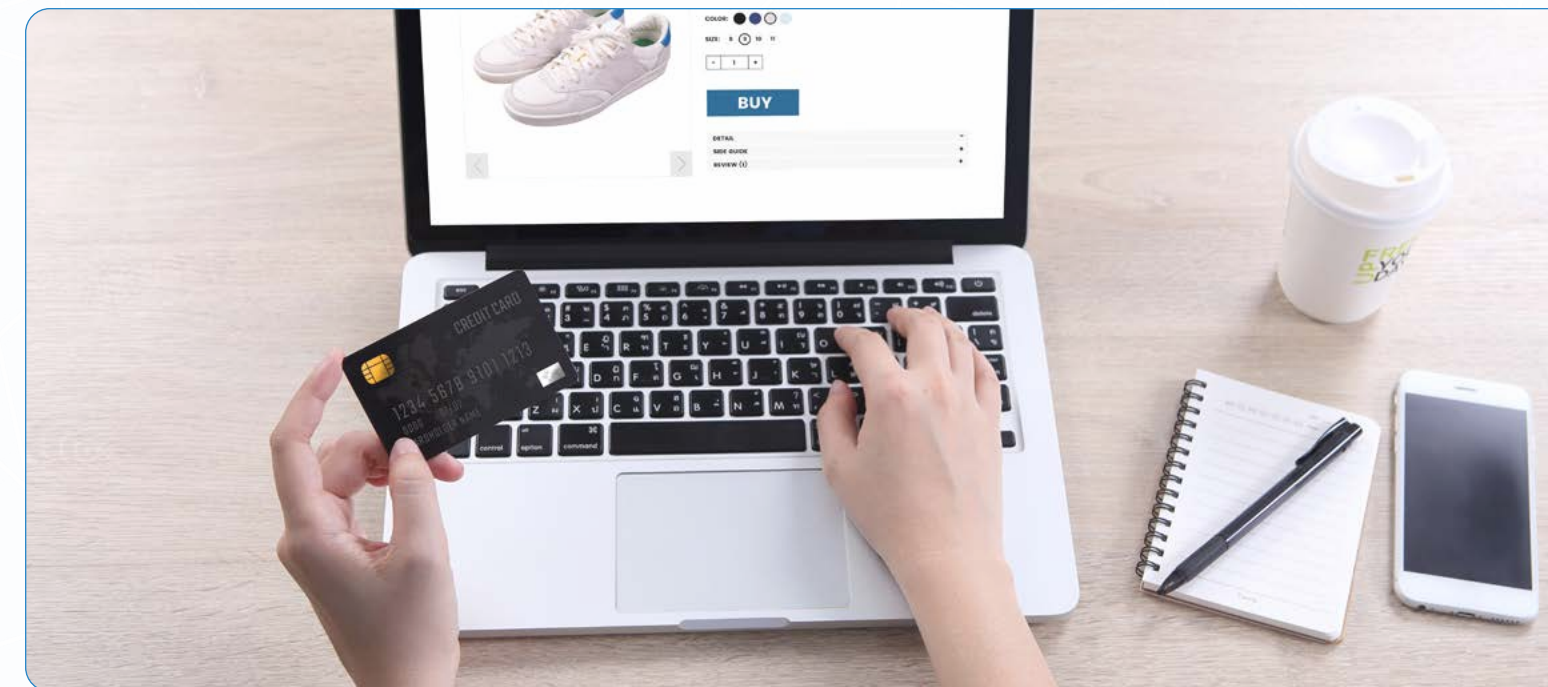
Providing a smooth checkout experience to customers is crucially important for merchants of all sizes. Any obstacle in the payments journey, such as a declined payment or even a processing delay, can be the turning point between completing a sale and chasing a customer away to a competitor.

“When you’re competing for a sale, just one extra click could be the difference between winning and losing,” Pike said. “Taking friction out of the transaction process is just as important, if not more, for the little guy [as it is for a large merchant].”

Merchant aggregators must be equipped to offer merchants their customers’ desired payment methods and a seamless checkout experience. Pike said there is tremendous demand from his merchants for every type of payment method available — with many wanting different options when operating in different regions or environments.

“It can be credit cards, it can be store credit cards, it can be your Apple Pay or Google Pay — and when we get outside of the U.S., there are even more alternative payment methods,”

Benson agreed. “Obviously on the back end, the merchant needs to be set up for success, because if the consumer’s payment method is declined, or it’s a false positive [for fraud], there’s a good chance you lose that individual.”



Insider POV

Payments orchestration can be vital for aggregators looking to customize merchants' checkout pages to reflect the growing and global variety of payment methods. Handling payment gateways via a third-party API removes significant pressure on aggregators to confront unexpected payment obstacles. It also has the power to boost their bottom lines.

“Payments orchestration allows us to get a greater return on every development dollar that we put toward [payment processes] and reduces our maintenance costs,” Pike said. “It’s a space of a lot of unknowns, many of which are in some ways uncontrollable. Payments orchestrators reduce our exposure and help on the cost front as well.”

Payments orchestration also helps platforms deal with fraud



Fraudsters are often international, making them more difficult to identify.



Different regions have different fraud regulations.



Payments orchestration deals with both fraud and regulation on the back end, reducing aggregators' risk.

Companies To Watch

Marketplaces Move To Expand Small Merchants' Reach



Golf technology company Supreme Golf recently [announced](#) a new marketplace for golf courses to market their tee times to prospective golfers. The system allows players to pay for their tee times via digital transactions, a first for the industry. CEO Jonathan Wride noted that thousands of public courses in the U.S. do not utilize third-party marketplaces for a range of reasons, including costs.

“We are removing all barriers to entry by providing free marketing, price control, and golfer data to golf courses,” he said. “We are committed to helping courses increase revenue and want to provide all courses an equal opportunity to attract new golfers.”



Ground travel ticket marketplace Busbud is also [expanding](#) its digital payments presence via a recent partnership with ticketing management platform Betterez. The merger will allow Busbud to accelerate the digitization of all bus reservation functions, including payments.



What's Next

Payments Orchestration Market To Hit \$6.5B By End Of Decade

The surging popularity of digital payments and the need for merchants and merchant aggregators to accept them is auguring a busy future for the payments orchestration market. Experts [predict](#) that the market will hit \$6.5 billion by 2030, driven primarily by an increased need for digital payments acceptance among SMBs. Contributing factors include greater digital payments adoption by hospitals and other essential service providers, especially as the pandemic fuels this growth.

“As companies have repositioned their priorities, there has been a continued and pronounced interest in payments orchestration — the process in which payments are routed and processed across different paths and providers. It is among the latest developments to help merchants maximize flexibility in the pursuit of capturing every sale possible.”

JUSTIN BENSON
CEO



About

PYMNTS [PYMNTS](#) is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.



Spredly’s Payments Orchestration platform enables and optimizes digital transactions with the world’s most complete payment services marketplace. Global enterprises and hyper-growth companies grow their digital business faster by relying on our payments platform. Hundreds of customers worldwide secure card data in our PCI-compliant vault and use tokenized card data to enable and optimize over \$40 billion of annual transaction volumes with any payment service. www.spredly.com

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