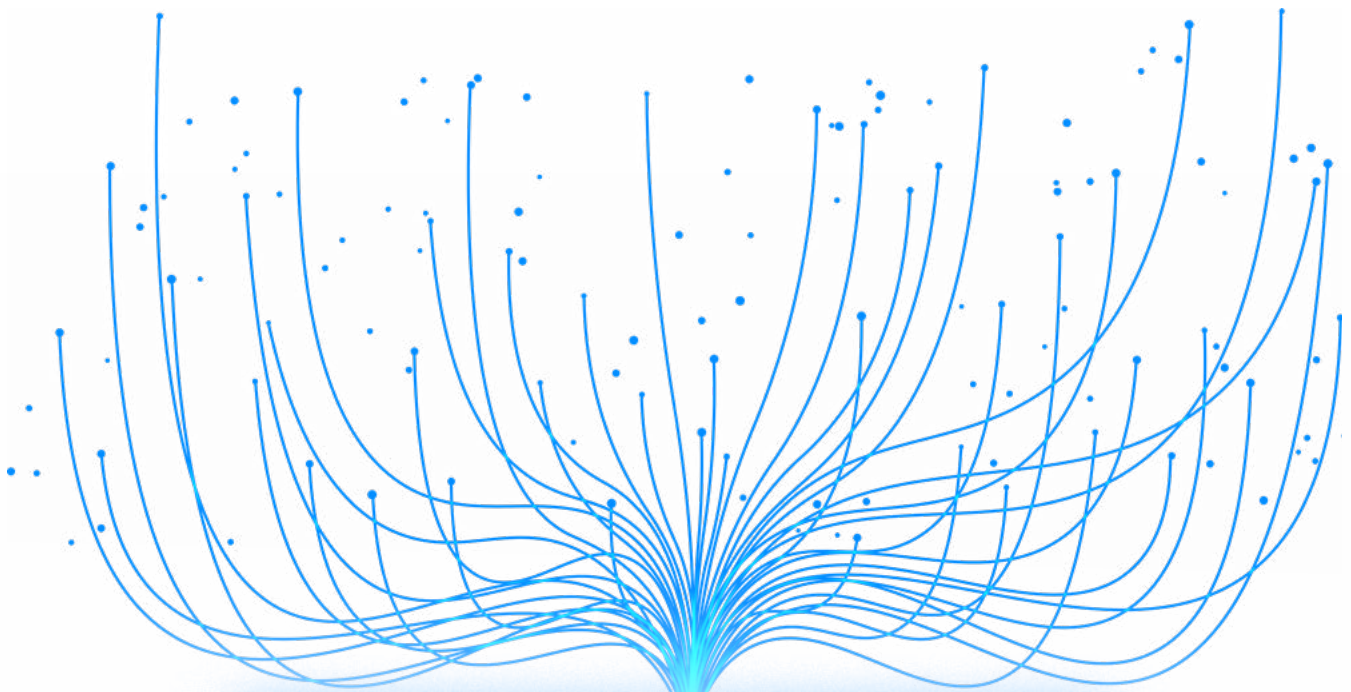


PLATFORM BUSINESS SURVEY: THE RISE OF EMBEDDED PAYMENTS



November 2023 Report

PYMNTS
INTELLIGENCE

Carat_{from} fiserv.

PLATFORM BUSINESS SURVEY: THE RISE OF EMBEDDED PAYMENTS

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Platform Business Survey: The Rise of Embedded Payments was produced in collaboration with Carat from Fiserv, and PYMNTS Intelligence is grateful for the company's support and insight. **PYMNTS Intelligence** retains full editorial control over the following findings, methodology and data analysis.

INTRODUCTION

Today's economic landscape — characterized by perpetual rising prices, high interest rates and eroded consumer purchasing power — highlights the importance of payment facilitation. In particular, improving customer experience has become a market trend across industries as companies drive to improve payments and cater their businesses to a customer base that values easy buying experiences enabled with the latest available technologies. In doing so, businesses also strive to find ways to access markets quicker, enabling them to increase market share through planned growth. Embedded payments — efficient, high-functioning payment solutions on platforms — address these needs and interests.

ISVs:

Individual companies that sell software to companies as single units and that may or may not have payment features incorporated.

MARKETPLACES:

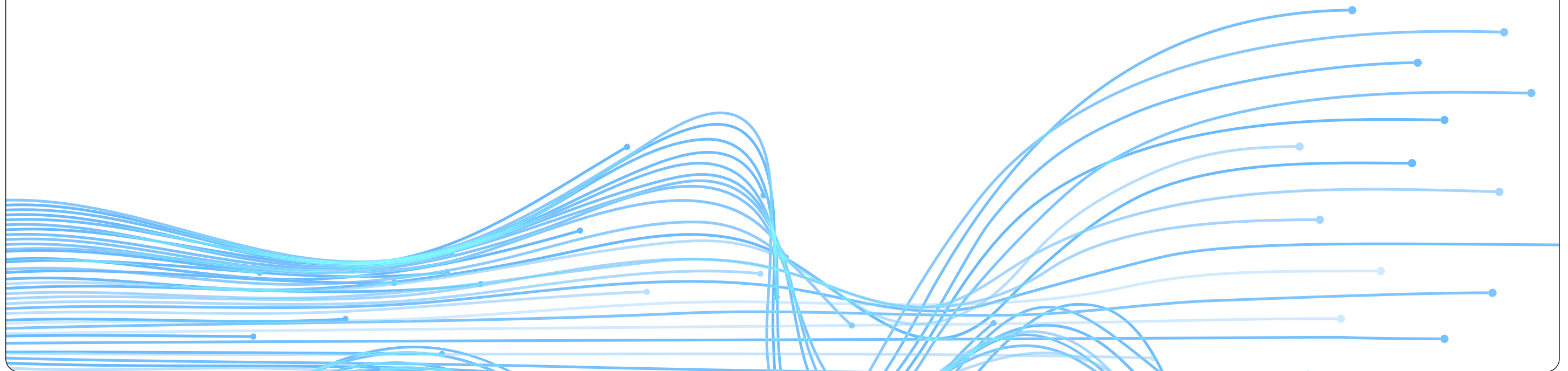
Platforms that allow customers to complete transactions with many retailers on a single website or application that connects one customer to many merchants. Amazon is an example of a marketplace, as users can purchase from multiple vendors in a single transaction on its platform.

PAYFACS:

These entities facilitate payments from one person or business to another. Some aggregate multiple providers to enable payments that connect one customer to one merchant.

The increased participation of payment providers in the global economy has the potential to improve customer payment experiences across industries and sectors. The drive to improve customer payment experience involves the efforts of three market participants that serve as payment facilitation providers: payment facilitators (PayFacs), independent software vendors (ISVs) and marketplaces. These providers have unique characteristics that make them stand out in their respective market niches. One common denominator for these providers is that they all provide their services through software.

Platform Business Survey: The Rise of Embedded Payments, a PYMNTS Intelligence and Carat from Fiserv collaboration, explores the characteristics, sentiments and behaviors of PayFacs, ISVs and marketplaces. We surveyed 282 executives — 41 at PayFacs, 120 at ISVs and 121 at marketplaces — between July 10 and August 25 to determine how they facilitate customer payment processes.



Embedded payments are becoming table stakes for software companies and marketplaces, with 54% of ISVs and 74% of marketplaces enabling digital payment experiences to remain competitive.

ISVs and marketplaces are leading the way in embedding payment acceptance into their systems, as more than half of ISVs and nearly three-quarters of marketplaces enable payment acceptance features in their services — especially ISVs and marketplaces in the retail sector. Conversely, PayFacs support in-store payments for retail and wholesale trade companies more than other segments, as more than half of PayFacs support in-store and digital payments for customers in these segments.

Customer demand also plays a vital role in determining what these providers offer in terms of embedded payments. For example, digital wallets are gaining traction among ISVs and PayFacs. Among ISVs and PayFacs that enable digital wallets, consumers made approximately one-third of transactions using these methods for both segments in

FIGURE 1:

Payment providers and their customers

Share of payments processed in the last 12 months, by select payment method and segment

	Retail sales	Wholesale trade or logistics	Multimedia or telecommunications	Software producers and publishers
PayFacs				
• Credit card	24.1%	21.7%	20.8%	21.0%
• Digital wallet	25.9%	29.2%	38.8%	38.2%
• Debit card	13.1%	15.8%	14.2%	11.6%
ISVs				
• Credit card	18.9%	12.5%	16.5%	15.9%
• Digital wallet	34.5%	41.4%	26.4%	32.2%
• Debit card	11.0%	7.8%	14.5%	12.9%
Marketplaces				
• Credit card	24.4%	22.6%	28.3%	23.3%
• Digital wallet	22.6%	24.3%	24.2%	13.3%
• Debit card	12.2%	9.1%	5.8%	9.4%

Source: PYMNTS Intelligence

Platform Business Survey: The Rise of Embedded Payments, October 2023

N = 282: Whole sample, fielded July 10, 2023 – Aug. 25, 2023

the last 12 months. Conversely, consumers completed just 22% of transactions in marketplaces via a digital wallet.

Overall, ISVs and PayFacs offer an average of seven payment methods each — and marketplaces provide an average of eight.

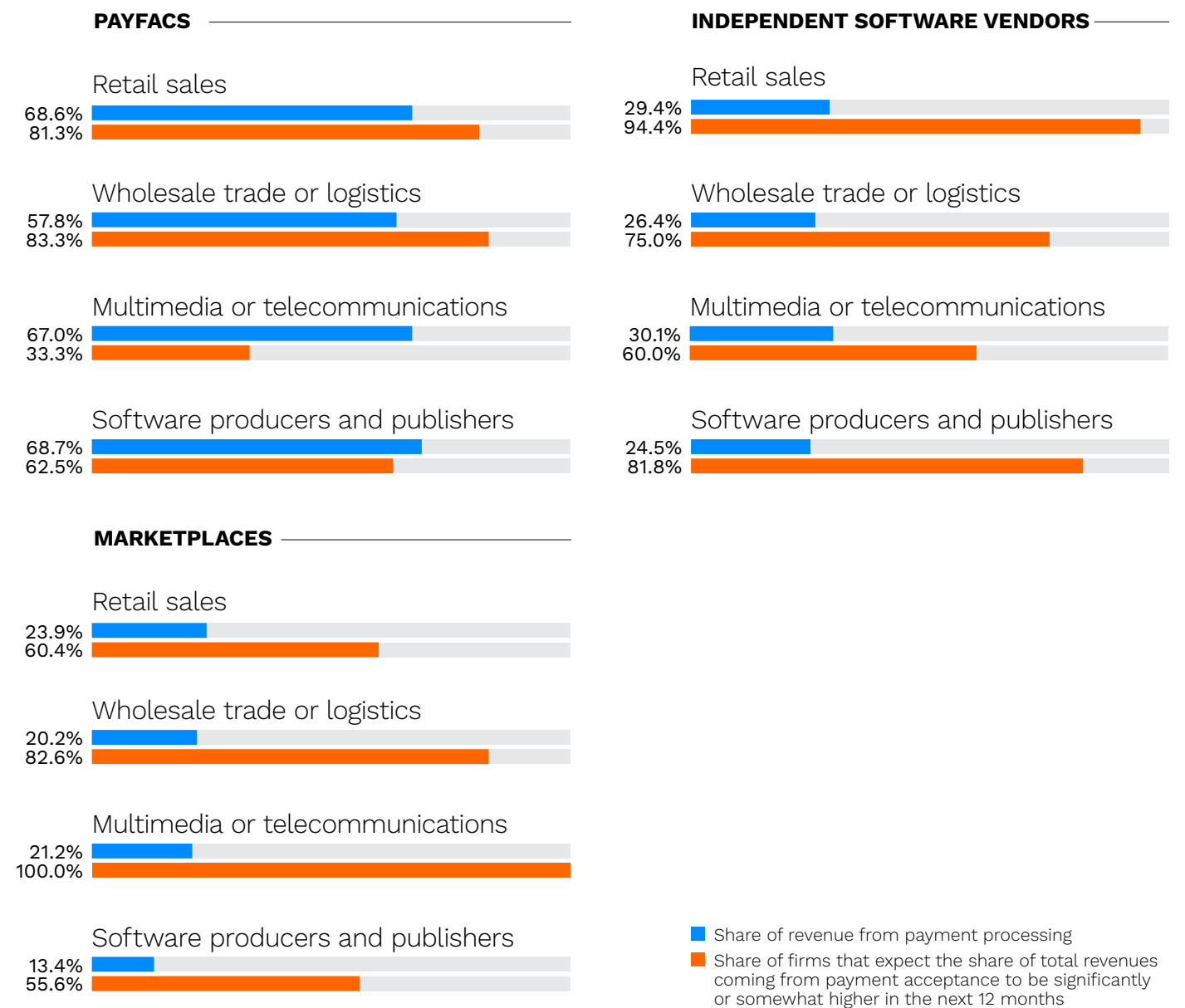
ISVs and marketplaces view payments as additional revenue sources, with two-thirds planning to add or enhance payment acceptance in the next year.

The ability of companies to create new sources of revenue is paramount, and payment features are increasingly entering the spotlight as one way to do so. After all, adding payment features to services allows ISVs and marketplaces to generate revenue through payment processing fees. Data suggests that 65% of ISVs and marketplaces not currently offering payment capabilities plan to add embedded financial products for payment acceptance next year. They would join the approximately three-fourths of ISVs and marketplaces already offering payment capabilities and plan on enhancing their embedded financial products within the next year.

FIGURE 2:

Payment features and revenue

Average share of revenue from payment processing and share of firms that expect greater revenue from payment acceptance, by firm type



Source: PYMNTS Intelligence
 Platform Business Survey: The Rise of Embedded Payments, October 2023
 N = 196: PayFacs, ISVs or marketplaces that provide payment acceptance features, fielded July 10, 2023 – Aug. 25, 2023

On average, 83% of ISVs expect a rise in their revenue share derived from payment acceptance in the next 12 months, showing high confidence among payment providers; marketplaces expect a 68% increase, on average.

Among those enabling payment acceptance, PayFacs enable payments for 39% of ISVs and 78% of marketplaces that accept them, with 59% of PayFacs exclusively supporting digital payments online or via an app.

The size of companies can be a contributing factor that correlates with the use and acceptance of embedded payments. Larger ISVs rely more on PayFacs to process their payments, for example. However, there is no direct relationship for marketplaces of different sizes. The ISV trend is clear, as 59% of ISVs with revenues of \$1B or more use PayFacs to process their payments, yet just 21% of those with revenues between \$50 million and \$250 million do the same.

Further data suggests ISVs prefer more diverse payment processing strategies, whereas marketplaces heavily rely on PayFacs. Approximately 62% of ISVs maintain merchant accounts with traditional acquirers, and 78% of marketplaces have sub-merchant accounts.

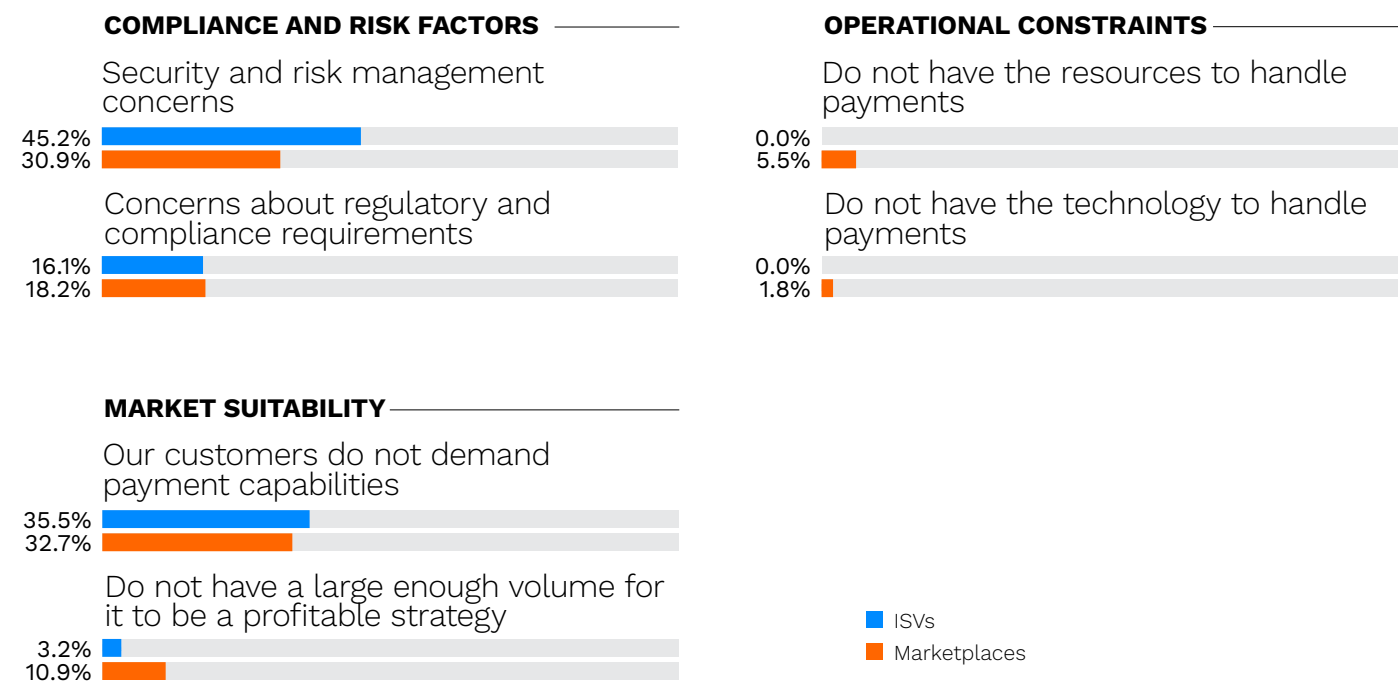
HOLDOUTS

Companies that decide not to offer payment acceptance primarily cite concerns about risk and security and the perceptions that their customers do not need or want the inclusion of payment capabilities in their accounts. Specifically, 31% of ISVs and 45% of marketplaces identify security and risk management as the top reasons they do not support payment acceptance. Demand also plays a role in both segments holding out on offering payment processing; 33% of ISVs and 36% of marketplaces say their customers do not want or need payment processing capabilities.

FIGURE 3:

Business customer concerns

Share of ISVs and marketplaces citing the most important reasons for not supporting payment acceptance features

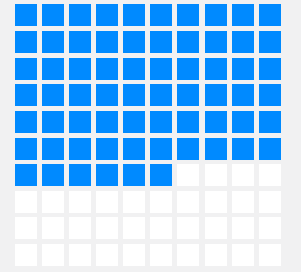


Source: PYMNTS Intelligence
 Platform Business Survey: The Rise of Embedded Payments, October 2023
 N = 55: Marketplaces that do not offer payment acceptance features; N = 31: ISVs that do not offer payment acceptance features, fielded July 10, 2023 – Aug. 25, 2023

PayFacs estimate that value-added services, such as installment payments and invoicing, will account for half of their projected revenue next year.

PayFacs currently generate approximately 66% of their revenue from payment processing, and most companies in this segment estimate their share of revenue will increase next year primarily due to an increase in value-added services. For instance, PayFacs believe that if they enable embedded finance products and value-added services, such as chargeback dispute management and multifactor authentication, 51% of their revenue will come from this next year. This increase in projected revenue shares will be particularly important for PayFacs serving wholesale trade or logistics companies — they project that the revenue share coming from value-added services will be roughly 55%.

66%



of revenue generated by PayFacs comes from **payment processing**.

As for embedded finance products, PayFacs see digital wallets, invoicing and installment payments as key to their growth. Two-thirds of PayFacs that support digital wallets will further innovate their digital wallet support. Moreover, this segment will further improve its installment payment offerings; 24% that currently offer installments want to innovate further, and an additional 37% of providers want to begin offering this service. Lastly, the data shows invoicing as a key driver for revenue next year; 76% of PayFacs offer invoicing, and the same share consider it highly important for the success of their business.

FIGURE 4:

Investing in embedded payment services

Share of firms very or extremely interested in innovating or enhancing the following embedded finance products, by type of provider

	Do not currently offer and are not very or extremely interested in innovating or adding	Do not currently offer and are very or extremely interested in innovating or adding	Currently offer and are not very or extremely interested in innovating further	Currently offer and are very or extremely interested in innovating further
PayFacs				
• Digital wallets	4.9%	7.3%	22.0%	65.9%
• Payment acceptance (other than BNPL or digital wallets)	0.0%	0.0%	39.0%	61.0%
• Loyalty or reward programs	22.0%	19.5%	12.2%	46.3%
• Business credit cards	29.3%	24.4%	7.3%	39.0%
• Merchant lending or short-term credit	22.0%	12.2%	29.3%	36.6%
• Installment payments	26.8%	36.6%	12.2%	24.4%
• BNPL	41.5%	39.0%	0.0%	19.5%
• Working capital loans	56.1%	19.5%	7.3%	17.1%
ISVs				
• Digital wallets	32.5%	27.5%	14.2%	25.8%
• Payment acceptance (other than BNPL or digital wallets)	30.8%	15.0%	25.0%	29.2%
• Loyalty or reward programs	58.3%	25.0%	4.2%	12.5%
• Business credit cards	62.5%	24.2%	1.7%	11.7%
• Merchant lending or short-term credit	70.0%	18.3%	5.8%	5.8%
• Installment payments	72.5%	15.8%	3.3%	8.3%
• BNPL	68.3%	26.7%	2.5%	2.5%
• Working capital loans	80.0%	16.7%	1.7%	1.7%

Cont.

	Do not currently offer and are not very or extremely interested in innovating or adding	Do not currently offer and are very or extremely interested in innovating or adding	Currently offer and are not very or extremely interested in innovating further	Currently offer and are very or extremely interested in innovating further
Marketplaces				
• Digital wallets	18.2%	18.2%	14.0%	49.6%
• Payment acceptance (other than BNPL or digital wallets)	15.7%	9.9%	30.6%	43.8%
• Loyalty or reward programs	17.4%	14.0%	7.4%	61.2%
• Business credit cards	38.8%	31.4%	5.0%	24.8%
• Merchant lending or short-term credit	38.8%	11.6%	24.8%	24.8%
• Installment payments	38.0%	20.7%	10.7%	30.6%
• BNPL	35.5%	26.4%	5.8%	32.2%
• Working capital loans	67.8%	23.1%	4.1%	5.0%

Source: PYMNTS

Platform Business Survey: The Rise of Embedded Payments, October 2023
N = 282: Whole sample, fielded July 10, 2023 – Aug. 25, 2023

PayFacs are investing in correcting issues related to payment failures and chargebacks — these currently account for nearly one-quarter of all monthly customer service issues.

Payment failures are a reality for all industries and sectors, even for payments made on modern platforms. In fact, 25% of PayFacs' business customers report monthly issues with embedded finance products. Multimedia companies and software producers' business customers report the highest levels of concern, with 24% of multimedia clients and 22% of software producers' clients reporting monthly issues with embedded finance products. Additionally, 12% of PayFacs say that their customers experience a payment failure of some kind monthly. The same percentage say that chargeback and disputes are the biggest issues their customers report.

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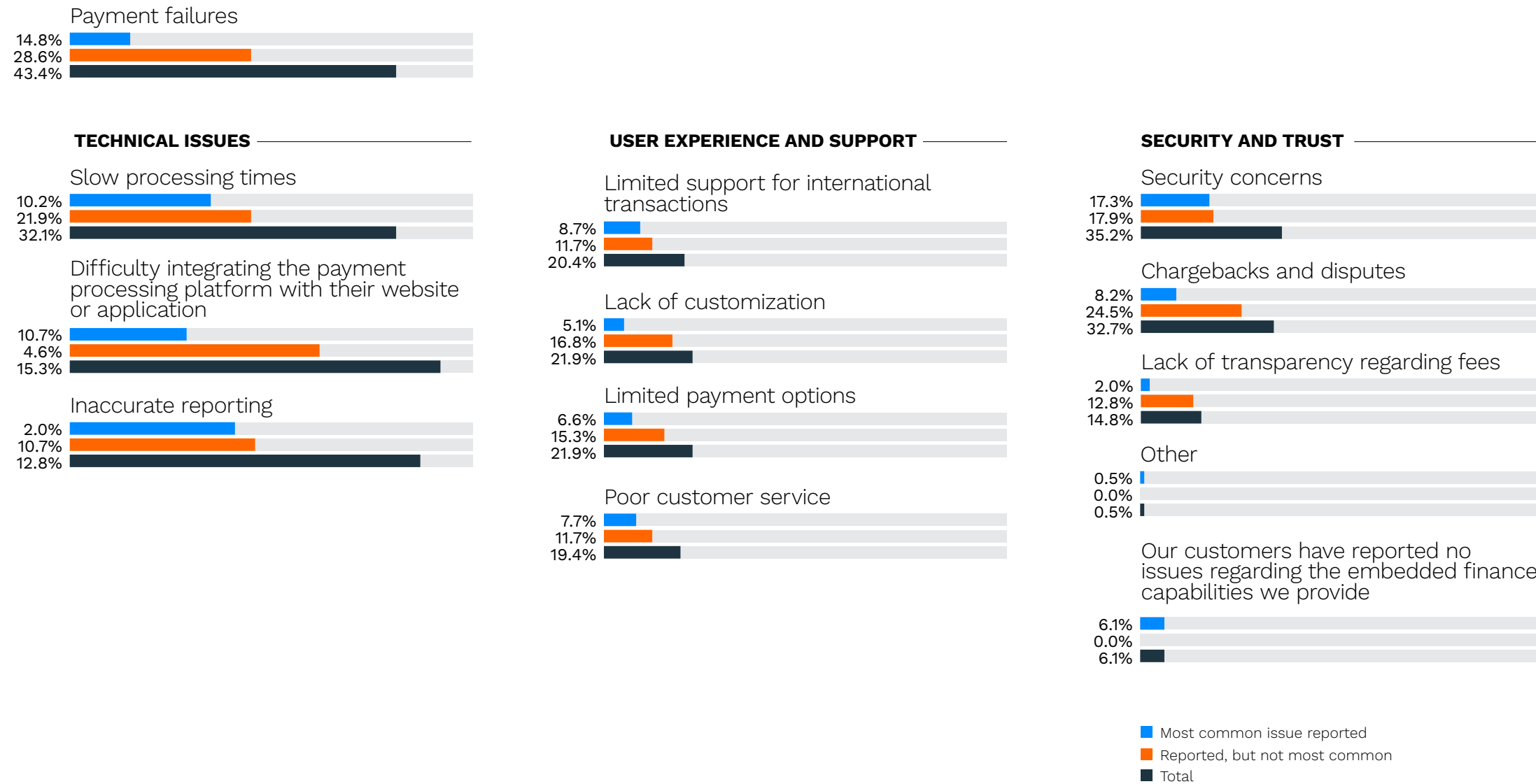
Multimedia companies and software producers' business customers report the **highest level of concern** with **embedded finance products**.

”

PayFacs are investing in products and services to decrease or neutralize these critical issues for end customers. This response is emblematic of the need to enhance the customer experience; 30% of PayFacs say that improving the customer experience is the most important factor for their innovation push, and 71% say they currently offer embedded finance solutions that seek to improve the customer experience.

FIGURE 5:
Concerns about payment failures

Share of firms that report customers cite issues regarding embedded finance capabilities



Source: PYMNTS Intelligence
Platform Business Survey: The Rise of Embedded Payments, October 2023
N = 196: PayFacs, ISVs or marketplaces that provide payment acceptance features, fielded July 10, 2023 – Aug. 25, 2023

15% of firms report that customers have **difficulty integrating the payment processing platform** with their website or app.

Thirty percent of ISVs and marketplaces say economic uncertainty will be the main challenge next year, while PayFacs believe workforce-related challenges will be their most pressing issue.

ISVs and marketplaces are concerned about the economic uncertainty surrounding the market, especially with fears of a potential recession in the next 12 months: 30% of ISVs and marketplaces identify this as the biggest obstacle to their success. Other economic considerations are also in play; PayFacs point to workforce challenges and inflation as top concerns. Data shows that 17% of PayFacs experienced difficulties hiring qualified employees and reported it as a top operational obstacle. Inflation is also a concern for PayFacs; 17% report persistent rising prices as their biggest challenge.

All three service providers are also concerned about economic uncertainty in the services they provide to wholesale companies. One economic uncertainty is rising prices. Recent data from the Producer Price Index, which measures changes in prices at the wholesale level, shows prices continuing to increase, rising in August by 0.7%, more than the 0.4% the market expected. Data shows that 68% of ISVs, 63% of marketplaces and 50% of PayFacs providing services to wholesale companies say their biggest challenge lies in economic uncertainty.

FIGURE 6:

Economic uncertainty is a top challenge for payment providers


Share of payment providers that believe they will face select challenges in the next 12 months

	Market factors	Economic conditions	Workforce and human resources	Supply chain and procurement	We do not expect to face any challenges or obstacles in the next 12 months.
PayFacs					
• Retail sales	18.8%	37.5%	31.3%	0.0%	12.5%
• Wholesale trade or logistics	16.7%	16.7%	50.0%	0.0%	16.7%
• Multimedia or telecommunications	16.7%	50.0%	25.0%	8.3%	0.0%
• Software producers and publishers	8.3%	45.8%	33.3%	12.5%	0.0%
ISVs					
• Retail sales	11.1%	71.4%	14.3%	3.2%	0.0%
• Wholesale trade or logistics	18.2%	68.2%	9.1%	4.5%	0.0%
• Multimedia or telecommunications	9.7%	54.8%	29.0%	3.2%	3.2%
• Software producers and publishers	15.8%	63.2%	15.8%	5.3%	0.0%
Marketplaces					
• Retail sales	22.0%	40.7%	22.0%	5.1%	10.2%
• Wholesale trade or logistics	3.3%	63.3%	30.0%	3.3%	0.0%
• Multimedia or telecommunications	15.4%	53.8%	30.8%	0.0%	0.0%
• Software producers and publishers	25.0%	55.0%	20.0%	0.0%	0.0%


Source: PYMNTS

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N = 282: Whole sample, fielded July 10, 2023 – Aug. 25, 2023



Businesses providing services to the wholesale trade industry are the **most concerned** about the economy.



CONCLUSION

The current economic landscape's persistent high prices and borrowing costs are pressing some businesses to incorporate solutions to facilitate payments — and some firms still expect economic uncertainty moving forward. Embedded payments can solve issues with customer experience and revenues, and PayFacs, ISVs and marketplaces are each adapting. PayFacs are investing heavily in value-added services and issue correction, and two-thirds of ISVs and marketplaces will add or enhance their payment capabilities.

Payments digitization is a natural progression in improving the customer experience when it comes to payments. How all these providers are successful in maintaining and facilitating payments may well determine their market viability and medium- to long-term growth.

METHODOLOGY

Platform Business Survey: The Rise of Embedded Payments, a PYMNTS and Carat from Fiserv collaboration, explores the characteristics, sentiments, and behaviors of PayFacs, ISVs and marketplaces. We surveyed 282 executives at PayFacs, ISVs and marketplaces between July 10 and August 25 to determine how they facilitate customer payment processes.

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