

U.S. ISV Analysis

TSG surveyed 205 ISVs in the fall of 2022 to understand their needs, relationships with their processors, weakness in the competitive market, product gaps, and interest in embedded banking solutions.



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The Assignment

Objectives

KeyBank requested that TSG conduct a survey of integrated software vendors (ISVs) to gain insight into their needs, level of satisfaction with their current payment processing providers, views and opinions of providers in the market (to assess areas of weakness), and product gaps they may be experiencing. The goal of the survey was to gain meaningful strategic insights when it comes to the mindset of software vendors, as well as provide data and statistics which could be utilized in the creation of an infographic and whitepaper to support KeyBank's marketing efforts aimed toward software vendors.

The following criteria applied to the survey for this engagement:

- U.S. focused
- ISVs that currently have an integrated payments solution
- Sample size goal: At least 200 respondents from software vendors

Key areas to be uncovered:

- Identify needs
- Confirm areas of weakness in the competitive market
- Gain insight into their product gaps
- Gauge their level of satisfaction with current providers

Secondary focus:

- Interest and experience with embedded banking solutions

Executive Summary



Executive Summary

The following contains an initial report of findings to highlight useful survey-related insights in advance of the Money2020 event, and to provide data which can be used for marketing purposes in an infographic and whitepaper.

ISV needs

A clear trend emerged where dependability, product set, and competitive pricing tends to be at the forefront of decision-making. Payment processors who are able to demonstrate the value of their partnership – as well as those willing to offer contract terms and attentive customer service to their software vendor clients – will likely have an edge in obtaining new partnerships.

Market weaknesses

When it comes to the market, understanding the awareness and sentiment of software vendors in general can be highly advantageous, especially as it affords knowledge of how software vendors think about different processors with whom they may not have an existing relationship. This is directional in understanding how a software vendor is poised to react or respond to an outreach.

In terms of the survey findings, several bank acquirers and “new age” acquirers were better positioned to reach out to software vendors and obtain favorable responses over more traditional payment processors in the market today. This is likely due to the brand strength of bank acquirers as they are very well-known and to a large degree have penetrated public awareness. New age acquirers on the other hand have more opportunity stemming not from awareness, but from general sentiment – they tend to be regarded well by software vendors who do not know them. They’ve fostered a positive reputation among software vendors in general.

Product gaps

Perceptions reported by software vendors tended to vary widely according to who they were working with most frequently, but overall a notable issue emerged when it comes to customer service. Some software vendors complained that it was hard to reach an actual person when trying to contact their processor, and they were often not satisfied with their provider’s level of responsiveness.

Another gap emerged in terms of the payment terminal options and hardware quality – some software vendors expressed there was room for improvement in these types of products.

Finally, most software vendors felt unfair pricing was an issue, or that they did not have access to the type of contract they would like. Capitalizing on dissatisfaction with pricing is likely going to be a key selling point for this group.

Satisfaction with partners

Overall, 39% of ISV responses signaled a clear intention to continue working with their preferred processor over the next two years. This means there is likely opportunity to woo approximately 61% of software vendors away from their current preferred partner.

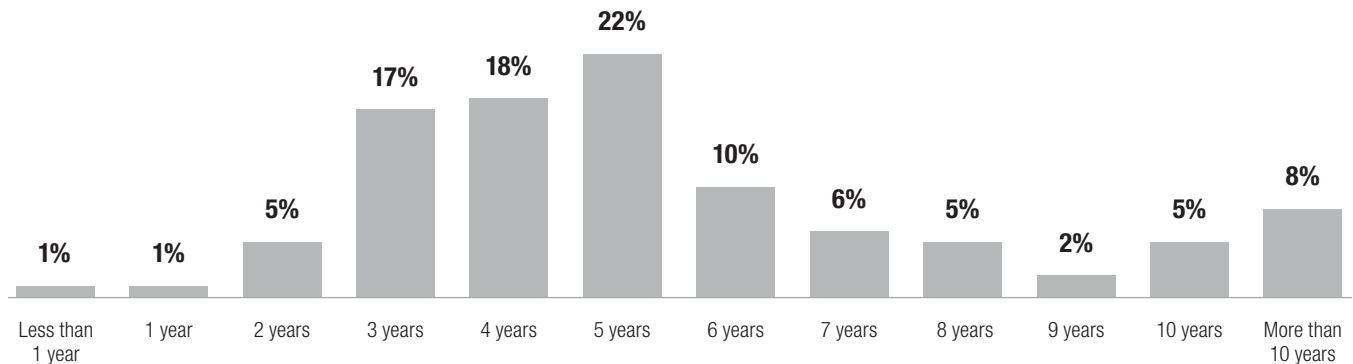
Sample Characteristics



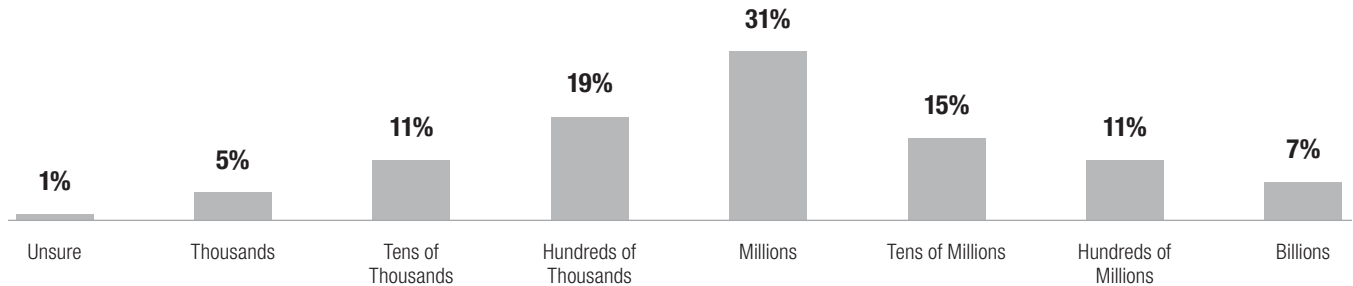
Sample Characteristics

Respondents in the sample were most likely to have worked with their preferred payment partner for 3–5 years. They reported an average processing transaction volume in the millions, and an average processing dollar volume in the millions as well. By vertical, most were serving retail, vertical-agnostic (i.e., all types of merchants), insurance, or restaurant clients.

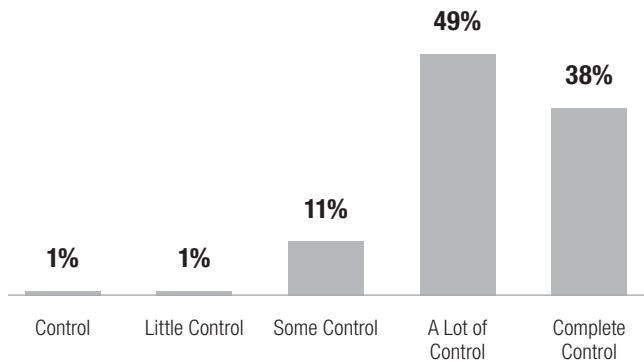
Tenure with Preferred Payment Processing Partner



Annual Payment Processing Dollar Volume



Control Over Merchant Onboarding Process



Most Common Verticals Served

- Retail**
- Vertical Agnostic**
- Insurance**
- Restaurant (Quick Service)**
- Grocery & Convenience**
- Restaurant (Full Service)**
- Utilities**

Sample Characteristics

Software vendors reported onboarding their merchants with payments in a variety of ways, but primarily by sending the merchant’s contact information directly to their payment partner. Most software vendors reported a hybrid model with their payment partner, or a referral model. It was common for their software to offer CRM, payroll, inventory management, and sales reporting features.

Merchant Onboarding Process Description

31%

Send contact information to payment partner

24%

Provide merchant client with sale’s team contact info

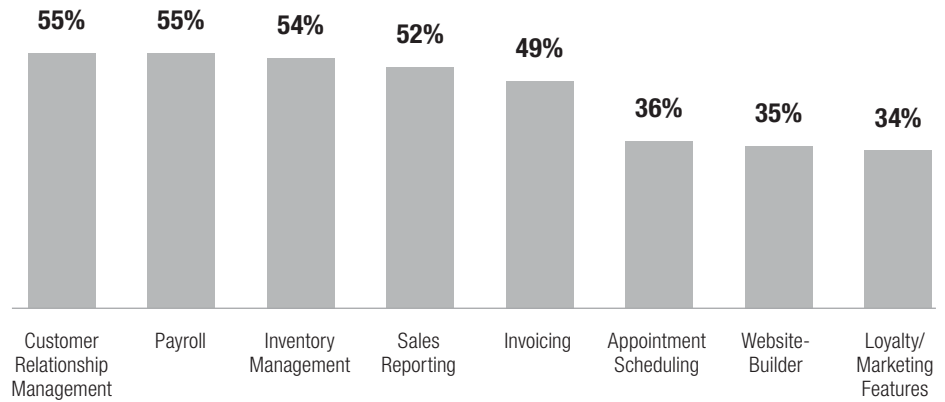
17%

Self-boarding on website using API

15%

Manually gather details

Software Functionality



Integrated Payments Model



Summary of Results



What do ISVs need?

The top reasons selected by ISVs for choosing a preferred partner were:

- 1) The Processor having a History of Reliability (54%)
- 2) Superior Products/Solutions (40%)
- 3) Competitive Pricing/Revenue Split (39%)

Further, some ISVs expressed concern around these areas as a frequent issue:

- 1) Slow Transaction Speeds (24%)
- 2) Unfair Pricing (20%)
- 3) Customer Data Breach (12%)

ISVs reported a variety of individual priorities when it comes to their wants and needs in a processing partner, but most ISVs surveyed agreed that having a dependable partner, a good product set, and a competitive price was key in choosing a preferred payment partner. It was much more common to choose a partner based on pricing than being grandfathered in through a legacy acquisition (18%), or from a lack of alternative options (13%). To some extent, even receiving recommendations from others (16%) was less common in the decision process than the ISV doing their own research online (27%), underscoring the importance of a positive reputation. Processing partners who have an existing relationship with an ISV will likely be given preference, as most ISVs preferred to work with processors who they'd had some history with or knowledge of.

What do ISVs need?

Software vendors indicated through their comments that they had a variety of other needs that were not being met. Many of these clustered around pricing and contract issues, frustration with customer service from payment processing providers, and a desire for greater functionality or security.



Better customer service



Flexibility and transparency
around pricing

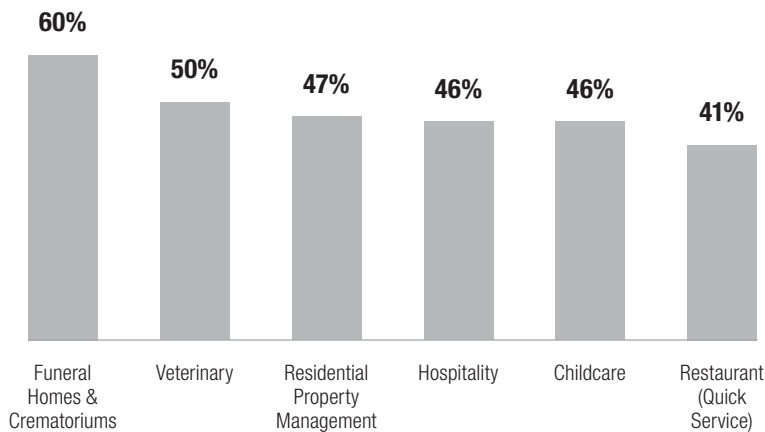


Greater functionality
and security

What do ISVs think of embedded banking?

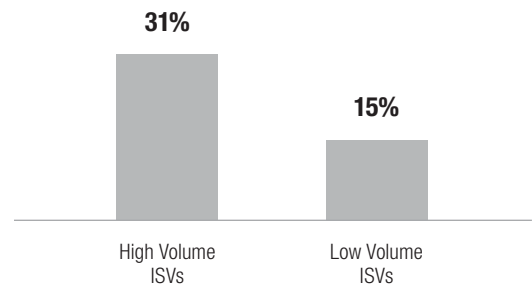
After TSG provided a definition of embedded banking (i.e., ‘Embedded Banking refers to the inclusion of financial services into nonbank companies’ products or software, or as part of a bigger bundle of services. In the case of your company, it may indicate that your company offers different financial options [i.e., loans, financing, checking, or savings accounts, etc.] to your merchant customers alongside your software solutions.’) ISVs were asked about the level of demand they had seen for embedded banking solutions, and whether it was on their company’s roadmap.

What level of demand have you seen from merchants when it comes to embedded banking services?



Overall, 33% of ISVs reported they were seeing high demand from merchants for embedded banking solutions. ISVs serving the six verticals above were identified as being more open to such offerings.

Is embedded banking on your company’s current roadmap?



For ISVs who indicated their companies were not using any embedded banking services, 25% reported embedded banking is on their company’s roadmap (27% were unsure, 48% said ‘no’). Higher volume ISVs were more likely to have it on their roadmap than lower volume ISVs.

What do ISVs think of embedded banking?

Overall, ISVs tended to be familiar with the idea of embedded banking. Whether they were offering embedded banking solutions or not, ISVs appeared open to cash flow management solutions across the board — this may be a natural extension for many ISVs looking for products to complement their software.

Is your company currently offering any embedded banking solutions?

Yes
78%

Is your company currently offering any embedded banking solutions?

No
22%

Current Offerings Breakdown	
20%	Cash flow management
16%	Business credit card
16%	Business savings account
15%	Business checking accounts
12%	Buy now, pay later loans
11%	Business revolving credit line

Interest in Future Offerings	
41%	Cash flow management
39%	Business checking accounts
32%	Buy now, pay later loans
32%	Business savings accounts
30%	Business credit cards
25%	Business revolving credit line

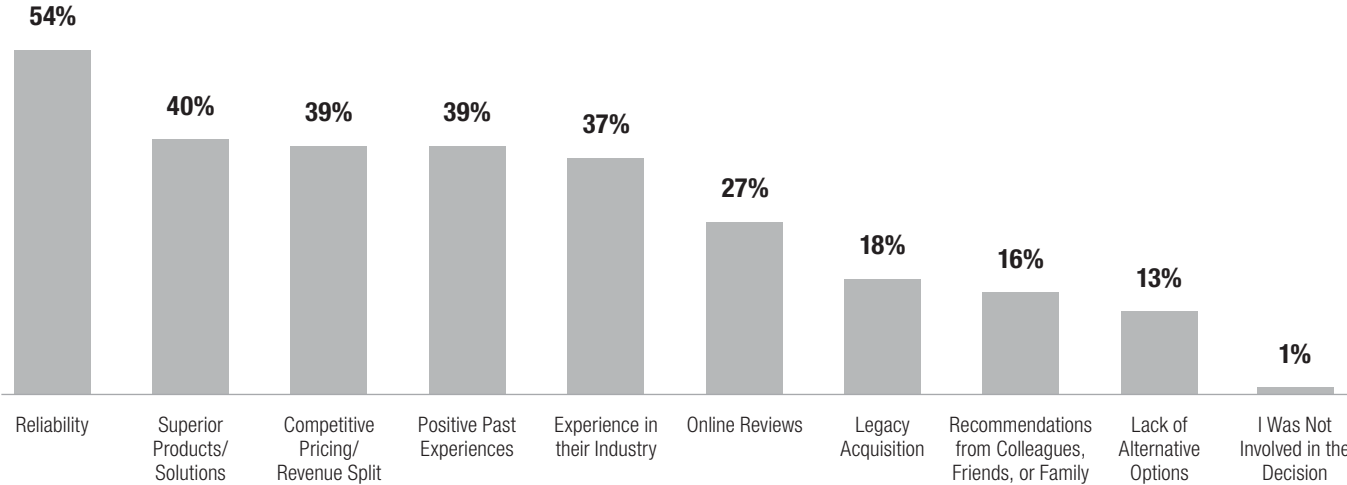
Survey Report



Payment processors were chosen because they were viewed as reliable, they were viewed as having good products and solutions, and they were offered competitive pricing.



All of the following questions in this section are about your preferred payments processing partner. Why is (Preferred Processor Name) your preferred partner? Select up to three (3) reasons from the list below.

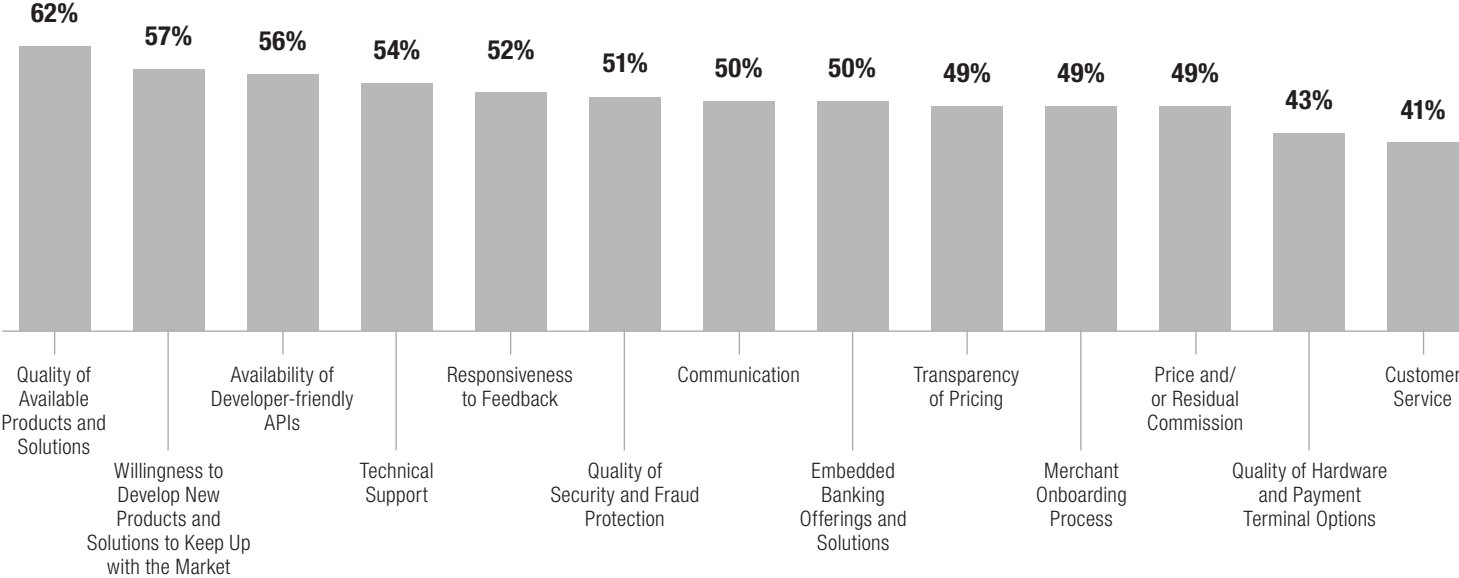


Most software vendors were satisfied with the quality of products and solutions available through their provider, but wanted improvement in customer service, hardware and payment terminal options, pricing, and the merchant onboarding process.



Please reflect on the interactions and discussions you've had with (Preferred Processor Name) over the past year. How would you rate your satisfaction with them on the following items?

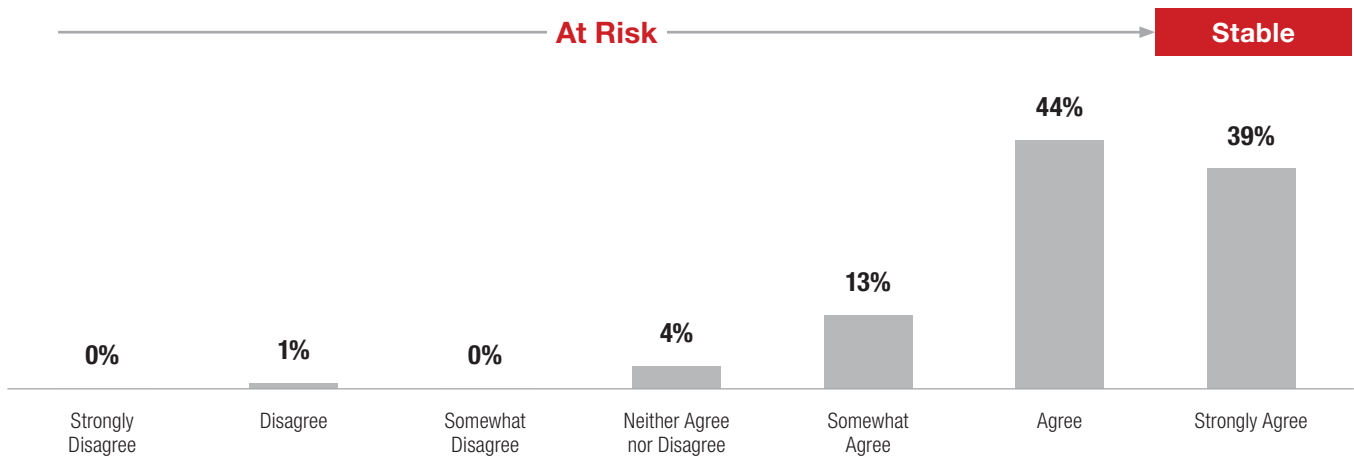
Percent of ISVs Satisfied With Each Area



Overall, 39% of ISVs reported a strong likelihood of continuing to work with their Preferred Partner over the next two years.



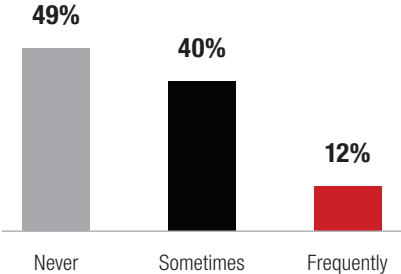
Please indicate your level of agreement with the following statement: “My company plans to continue working with (Preferred Processor Name) for at least the next two years.”



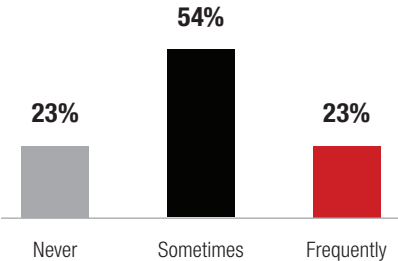
Most software vendors report the transaction speeds of their partners and unfair pricing as frequent issues.

 **Have you experienced any of the following challenges when working with any of your payment processing provider(s)?**

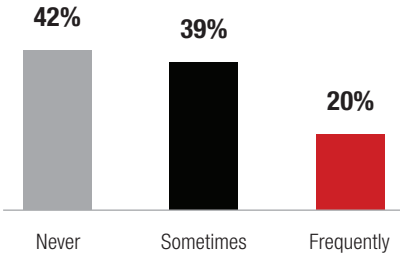
Customer Data Breach



Slow Transaction Speeds

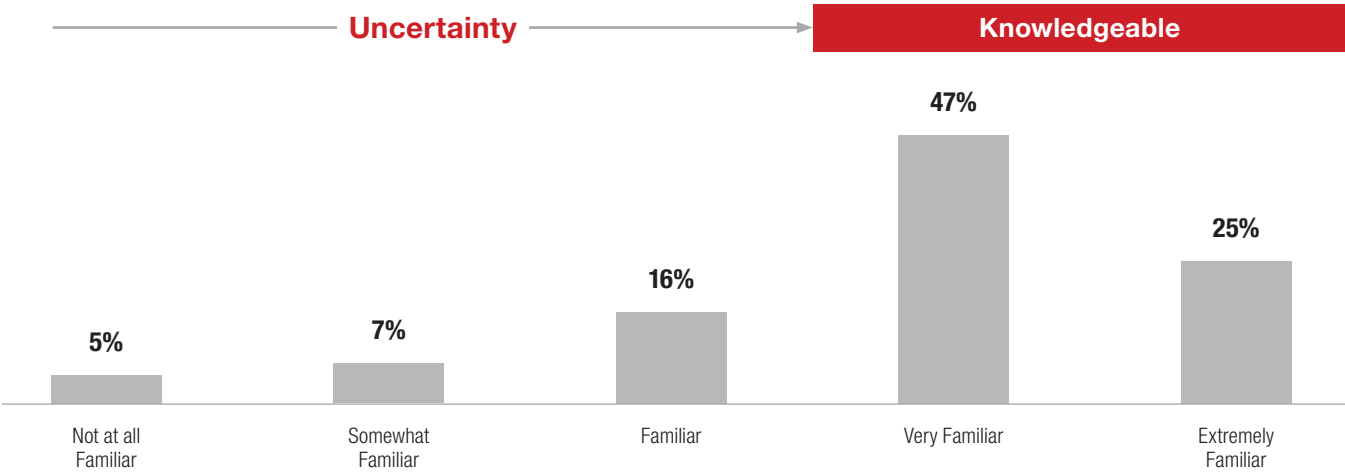


Unfair Pricing




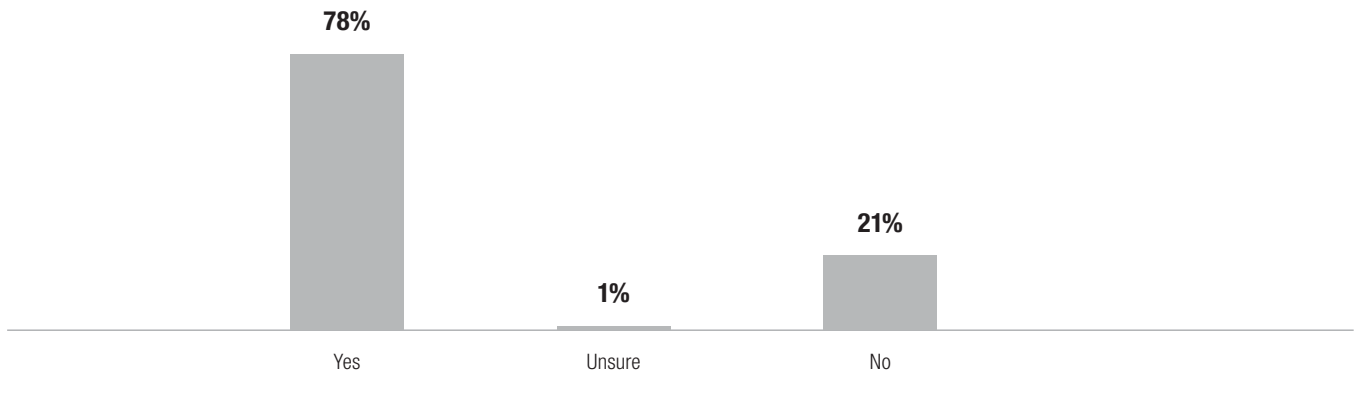
Most software vendors (72%) were familiar with embedded banking.

 Are you familiar with the term 'embedded banking'?



Most software vendors (78%) reported offering at least some embedded banking services to their merchant customers alongside their software solutions.

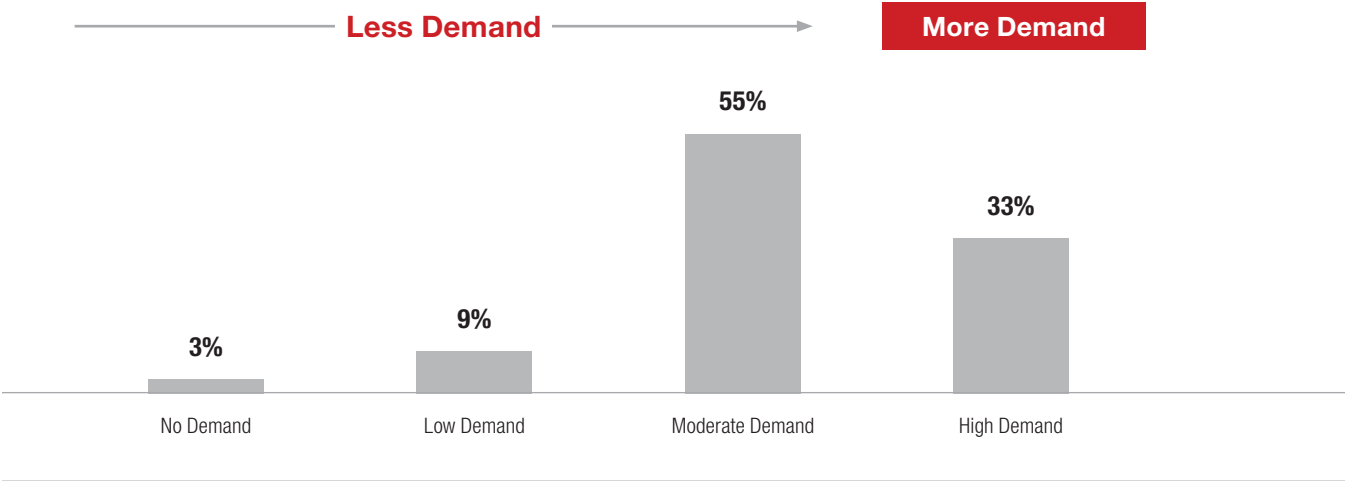
 **'Embedded Banking' refers to the inclusion of financial services into nonbank companies' products or software, or as part of a bigger bundle of services. In the case of your company, it may indicate that your company offers different financial options (i.e., loans, financing, checking or savings accounts, etc.) to your merchant customers alongside your software solutions. Is your company currently offering any embedded banking services?**



Approximately 1/3 of software vendors reported seeing high demand from their merchants for embedded banking solutions.



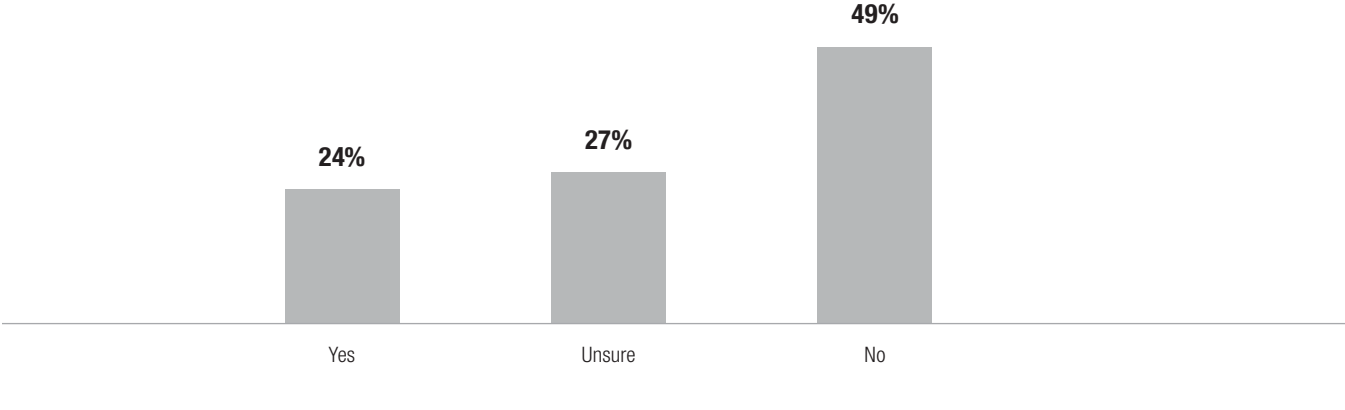
What level of demand have you seen from merchants when it comes to embedded banking services?



Most software vendors who were not already offering some type of embedded banking solution did not have embedded banking on their roadmap (48%).

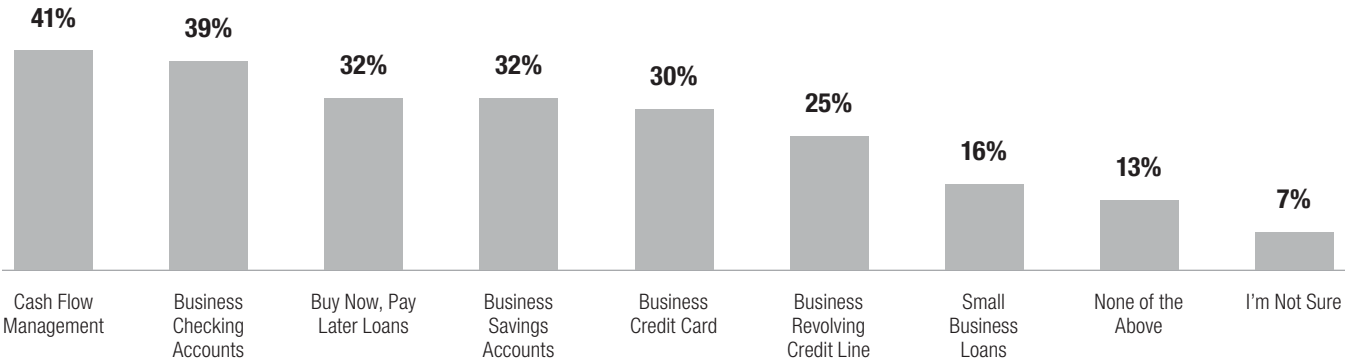


Is embedded banking on your company's current 'roadmap'?



Software vendors were interested in cash flow management, business checking accounts, and buy now pay later loans for their merchant customers.

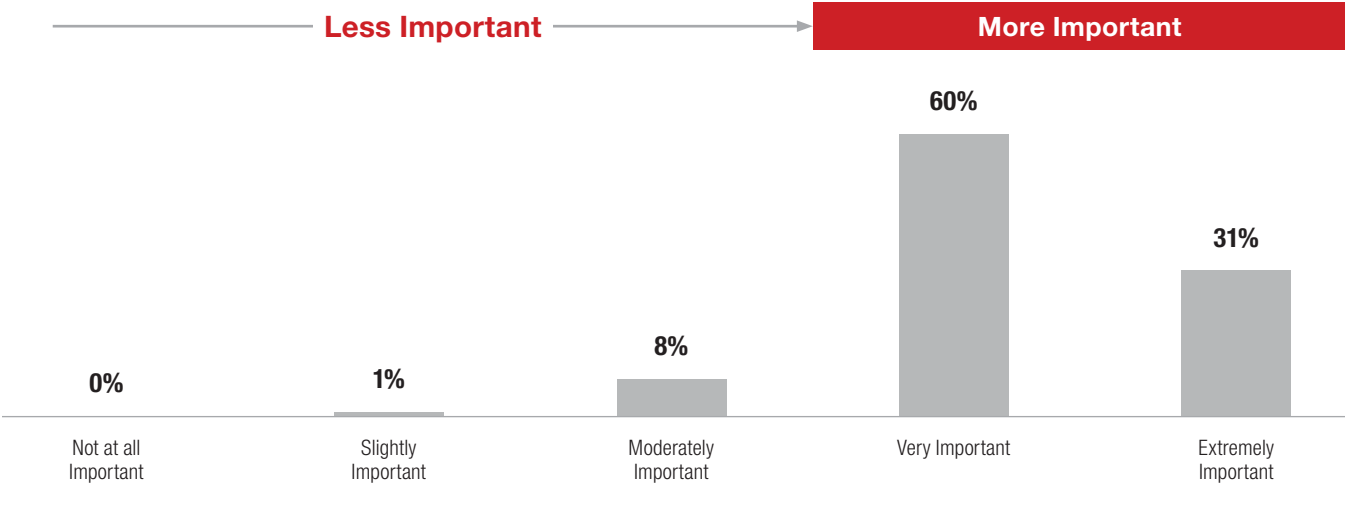
 **Do you think your company will offer any of the following embedded banking services in the future?**



Most software vendors offering embedded banking solutions reported that they were important to their company (91%).



How important are embedded banking solutions to your company today?



Software vendors were offering cash flow management, business savings accounts, and business credit cards to their merchant clients.



Which of the following embedded banking services do you currently offer to your merchant customers? (i.e., embedded banking services one of your merchant clients could use themselves, provided by your company through your payment processor)

