

How to choose an integrated payment model for your software platform



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EXECUTIVE SUMMARY

Payment monetization is becoming a popular business strategy for SaaS companies due to its lucrative revenue-earning potential and ability to transform the user experience. At its core, this strategy entails integrating with – or embedding – payment processing technology in order to facilitate built-in transaction processing. Through this approach, software brands are able to provide end users with a customized, brand-centric payment experience while also earning a portion of all processing fees.

There are several paths to payment monetization – each one with varying levels of overhead costs, development needs, and profit margins. What's best for your company depends upon a number of factors, such as your preferred upfront costs, go-to-market time, and user experience.

In this white paper we'll run through the benefits of integrated payments, dive into the four main payment models, and walk through some factors to consider as you seek out the best option.

BUSINESS DRIVERS FOR INTEGRATED PAYMENTS

SaaS companies that choose to integrate payments are typically focused on achieving one or more of the following benefits:

Payment Monetization

Companies who accept payments through their platform can earn a cut of the processing fees that are charged on every transaction. Revenue earning potential varies depending on the integrated payment model that's chosen, as we will discuss below.

Compelling and Innovative Payment Experiences

Payment processing is no longer just a basic operational function – it's a core part of the end-user experience. SaaS companies that integrate payments can cater to customers' increasing demand for a sleek checkout experience – think mobile wallets, one-click payment methods, loyalty and rewards programs, and much more.

Elimination of Payment Friction

It's well established that tedious and cumbersome checkout processes are more likely to result in lost sales and abandoned shopping carts. Integrating payments allows brands to swap out page redirects and lengthy payment flows for branded, one-click payment experiences.

Rapid Product Deployment

Building out new products or features is a great way to improve your customers' experience while also opening up cross selling opportunities. Rather than developing new products from scratch, however, you can easily add in payment processing functionality with the help of easy-to-integrate payment APIs. With minimal overhead, embedded payment technology enables SaaS providers to diversify product lineups and revenue streams – all while enjoying a fast return on investment.

YOUR OPTIONS FOR INTEGRATED PAYMENTS

Let's explore the various routes you can take if you're looking to integrate payments within your software. For each option, we'll break down the level of required overhead, profit margins, and business drivers that are met.

SaaS companies looking to integrate payments can choose from several options: a referral partnership, ISO partnership, becoming a PayFac, or partnering with a PayFac enabler.

Conventional Referral Partnership

Companies who accept payments through their platform can earn a cut of the processing fees that are charged on every transaction. Revenue earning potential varies depending on the integrated payment model that's chosen, as we will discuss below.

What it is:

For many years, this has been the standard path to integrated payments. SaaS brands that enter into a referral partnership with an Independent Sales Organization (ISO) refer their clients to the ISO and earn a portion of the processing revenue. The benefit of this option is that it requires very little effort on the part of the SaaS provider; however, that comes at the cost of revenue-earning potential and product customization.

In-House Lift: 5/10

As your ISO partner will typically handle account onboarding, integrations and deployment, and maintenance, referral partnerships impose very little burden on the SaaS partner.

Payment Margin: 35%

While referral partnerships are a simple, minimal-effort path to earning money on processing fees, they are not the most profitable.

Business Drivers:

- ✗ Payment Monetization
- ✗ Compelling and Innovative Payment Experiences
- ✗ Elimination of Payment Friction
- ✓ Rapid Product Deployment

SaaS brands that enter into a referral partnership with an Independent Sales Organization (ISO) refer their clients to the ISO and earn a portion of the processing revenue.

PARTNER WITH A BANK TO BECOME AN ISO

What it is:

Rather than partnering with an ISO, SaaS companies can become ISOs. To do so, the software company must enter into a partnership with an acquiring bank, allowing them to underwrite and service merchant processing accounts on their own.

In-House Lift: 4/10

As an ISO, you'll rely on your relationship with banks and utilize third-party payment technology to equip your clients with payment processing capabilities. Harnessing existing solutions greatly reduces the scope of development.

Payment Margin: 70%

Earning potential is much higher than with a traditional referral partnership, as you directly oversee your clients' processing accounts. However, profit margins aren't as high as they are with the PayFac model.

Business Drivers:

- ✓ Payment Monetization
- ✗ Compelling and Innovative Payment Experiences
- ✗ Elimination of Payment Friction
- ✗ Rapid Product Deployment

BECOME A FULL-FLEDGED PAYMENT FACILITATOR

What it is:

An alternative to partnering with a managed PayFac, this option involves building a full payment facilitation infrastructure from the ground up. Becoming a PayFac can easily take more than a year, if not several years. However, for businesses that process more than \$100 million in payments, becoming a full PayFac can be one of the most lucrative integrated payment options in the long run.

In-House Lift: 9/10

The path to becoming a full PayFac is quite costly and complex, as it requires the development of backend and frontend software platforms, underwriting guidelines, and risk monitoring and assessment.

Payment Margin: 85%

Operating as a full payment facilitator means you have the sole stake in revenue earned through processing fees – no need to split it with another entity.

Business Drivers:

- ✓ Payment Monetization
- ✓ Compelling and Innovative Payment Experiences
- ✓ Elimination of Payment Friction
- ✗ Rapid Product Deployment

PARTNER WITH A PAYFAC ENABLER

What it is:

Partnering with a managed PayFac provider – also known as a PayFac Lite, PayFac-as-a-Service, or PayFac Out-of-Box solution – allows you to enjoy greater control over the end-user experience while increasing your monetization potential. Your PayFac partner will provide you with the software and tools you need to set up merchants with merchant processing accounts and embedded, customizable payment functionality. Customers are onboarded as sub-merchants under the PayFac partner's master merchant processing account.

This option is ideal for SaaS companies who want to embrace the benefits of the PayFac model, without assuming all the risks and a multi-year in-house development process. A good PayFac tech partner like Exact Payments can get you up in running in a matter of days.

In-House Lift: 6/10

With greater embedded payment capabilities than the traditional referral partnership, there is slightly more overhead needed; however, it is still relatively minimal.

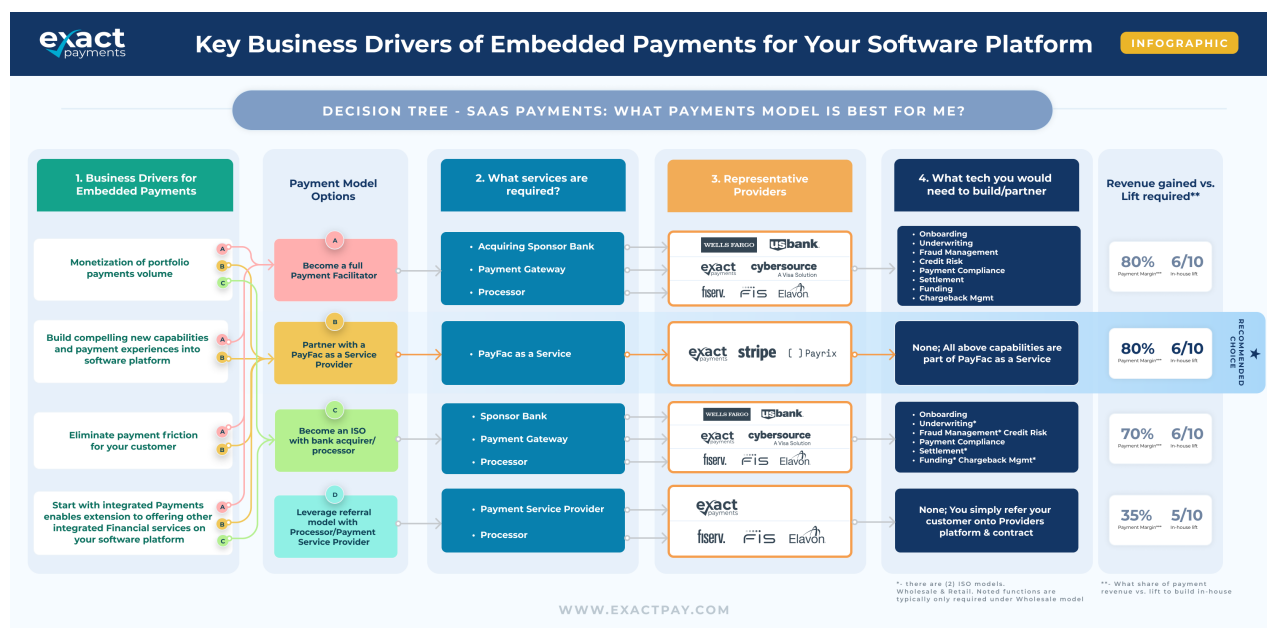
Payment Margin: 80%

The PayFac model is very profitable. Featuring a rapid onboarding process and simple flat-rate fee structures, portfolios are highly scalable. SaaS partners typically enjoy a more competitive revenue-sharing model than they would in a traditional referral partnership.

Business Drivers:

- ✓ Payment Monetization
- ✓ Compelling and Innovative Payment Experiences
- ✓ Elimination of Payment Friction
- ✓ Rapid Product Deployment

WHAT'S RIGHT FOR YOU



When deciding on the best integrated payment model for your business, you'll need to consider your resources, desired business outcomes, and ideal launch time. Here are some questions to help guide you during the decision-making process:

1

How much overhead are you willing and able to put in?

Do you have the time and capital to build custom payment features – or potentially a full payment tech stack? If you are limited in terms of both time and money, then pursuing a traditional referral partnership or becoming an ISO likely makes the most sense. If you have slightly more resources but you're still looking to keep costs relatively low, then partnering with a managed PayFac is a great option.

2

Are you in need of a fast ROI time, or are you in it for the long game?

Referral partnerships and PayFac partnerships will get you on track to monetizing payments much faster. On the other hand, becoming an ISO – or even more, so a full PayFac – means it'll take longer to see your ROI.

3

What business drivers are most important to you?

What are your main goals for integrating payments? For example, if innovative and embedded payment functionality is a key driver, then you'll want to stick with the PayFac model – either by operating as a full PayFac or by partnering with a managed PayFac.

4

What are your in-house development resources?

Becoming an ISO or entering into a referral partnership keeps in-house development to a minimum, as does partnering with a managed PayFac. On the other hand, building a full PayFac infrastructure requires a full development team on staff.

5

How much responsibility are you willing to shoulder for underwriting merchant accounts?

As an ISO or full PayFac, you'll be more closely involved with onboarding accounts – and this means you'll be taking on some risk. With a referral partnership or PayFac partnership, however, your partner takes on more of the burden and risk.

START MONETIZING WITH EXACT PAYMENTS



Our managed PayFac solution enables software companies to embed powerful payment processing features and enjoy generous revenue-sharing opportunities. With our low-code integration options, you'll be able to get up and running fast with embedded payment functionality, a powerful end-user experience, and a profitable revenue stream. Plus, once your processing volume gets high enough that you would consider becoming a full PayFac (i.e. at \$100 million annually+ in volume), our tech is able to help you transition to the full PayFac model – even further boosting your revenue potential and business valuation!

Need some guidance on what the best option is for your business? [Click here](#) to set up a quick, no-commitment chat with a member of our team! We take pride in helping software leaders like you to navigate the payments landscape. Contact us today!



Give us a call. We're available:

Monday - Friday

7:30 AM PDT - 5:30 PM PDT

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