Visa Consulting & Analytics

RE-IMAGINING ACQUIRING

How should bank acquirers respond to the rapidly evolving acquiring market?

VISA
everywhere you want to be

Driven by a surge in innovation, an enthusiastic community of new entrants, and a proliferation of new payment experiences, today's acquiring landscape is more dynamic than ever before.

The global pandemic, and its lasting impact on how merchants and their customers interact, has increased the need for acquirers to enable merchants with new digital solutions.

As a result of these changes, many acquirers are reassessing their strategies and business models to determine how best to serve their clients in this rapidly evolving landscape.

In this paper, Visa Consulting and Analytics (VCA) looks at five key acquiring trends and suggests responses for traditional acquirers to remain competitive in this exciting evolution.

TREND #1

Technology players have revolutionized acquiring

Over recent years, tech-savvy players have entered the market and, together with the most tech-forward acquirers, transformed it.

Fintechs like Adyen, Stripe and Square, in addition to processors, software vendors, gateways, payment facilitators, value-added resellers, service organizations and point of sale vendors are all vying with acquirers, and each other, to create new value for merchants and their customers.

As a result, there is now a proliferation of new go-to-market business models, payment experiences, and acceptance points.

TREND #2

The rise of independent software vendors (ISVs) has required acquirers to re-imagine partner and vertical strategies

One of the most important developments has been the emergence of independent software vendors (ISVs) providing end-to-end software platforms to specific and tightly-defined merchant segments – such as Shopify for e-commerce merchants, or Lightspeed for restaurants, to outfits like Mindbody for yoga studios, Housecall Pro for field services, or Gingr for pet services.

By integrating payments into their business management platforms, ISVs have tremendous influence over the payment provider selection process. For example, 87 percent of U.S. merchants choose a payment provider at the same time or after selecting their business software, and 90 percent rate the ability to integrate payments into their software as important or very important.[1]

The power of ISVs makes it critical for acquirers to not only develop their own segment-specific merchant strategies, but to also develop partnership strategies and robust value propositions to serve relevant ISVs, and optimize engagements and integrations.

---

1. Merchant survey conducted by independent third party on behalf of Visa Consulting & Analytics, October 2019

TREND #3

Merchants, large and small, are demanding more from payment providers

Years ago, acquiring sales were face-to-face, and merchants had to choose from a handful of pricing structures.

Today, everything has been democratized. Merchants can select the solution that suits them, under the terms that are most relevant, using the mix of devices and technologies that are most appealing. Applications are submitted online, devices are plug-and-play, and merchants can start accepting payments within minutes.

Meanwhile, even small and micro-businesses are demanding capabilities like cross-border, omni-commerce, data and analytics, and differentiated user experiences. With increased investment in technologies such as digital applications, onboarding and servicing, the ecosystem can now serve them in scalable, cost-effective ways.

And while price remains a top priority, merchants of all sizes are placing greater value on simplicity and frictionless experiences - from simple pricing, on-boarding and set-up, to robust, intuitive self-service portals for account management and detailed reporting options.

TREND #4

Increased competition has driven consolidation

In the past five years, the industry has seen a wave of mergers, acquisitions, and investments.

In 2019 alone, for example, there were more than 30 mergers and acquisitions within the U.S. acquiring space.[2] Some of the more notable mega-mergers included Fiserv and First Data, FIS and Worldpay, and Global Payments and TSYS. In the five years preceding these mega-mergers, First Data Corp, Global Payments, TSYS and Worldpay spent a reported US$10bn on acquisitions to boost their integrated payment efforts[3].

These mergers and acquisitions aren't just about scale. They are also about extending capabilities with merchants.

Similarly, these and other acquirers are making acquisitions to capitalize on the increasing value of integrated payments. In recent years, for example, several leading ISVs, including Instamed, Axia Technologies, and Zego, have been acquired by top U.S. acquirers.

Many acquirers have also invested in acquisitions to strengthen their e-commerce and omni-commerce capabilities. While the shift to online payments has been ongoing for years, these investments became even more important as this shift accelerated in 2020. When payments volume continued to increase despite widespread business shutdowns caused by the pandemic.[4]

2. The Nilson Report, 1192, March 2019
3. FinTech 2.0: Software as the future of payment distribution, Journal of Payments Strategy & Systems, 2019, https://medium.com/ideas-from-bain-capital-ventures/fintech-2-0-software-as-the-future-of-payments-distribution-57e8b5b8e643
4. The Nilson Report, 1192, March 2021

TREND #5

The shift to digital payments has accelerated

Globally, e-commerce purchase volumes rose significantly.

This has led to a rise in unified commerce, and a blurring of the lines between online and in-store payments.

At the same time, we have seen the continued rise in contactless payments, including especially in the U.S. market. By April 2021, one out of every 10 Visa point-of-sale (POS) transactions in the U.S. was being conducted with tap-to-pay.[5]

All the indications suggest that the changes will continue – driven by consumer demand, and enabled by acquirer-side investment and innovation.

Growth of card-not-present in the acquiring space

- Card-not-present (CNP) year-over-year (YOY) growth outpaced card-present (CP) growth by nearly 30 percentage points.
- YOY processing growth at acquirers with >50 percent CNP volume was 5x higher than other acquirers.
- YOY CNP growth at businesses processing $100M or less outpaced CP growth by over 20 percentage points.

Source: VisaNet Data is based on U.S. processing volumes for calendar year 2019 and 2020.

5. Contactless in the US, Visa Navigate, April 2021, https://navigate.visa.com/na/spending-insights/tapping-into-the-future-of-payments/

Taking stock – and selecting the right response

For bank acquirers, this post-pandemic context has made a complex and competitive sector even more challenging.

Despite the challenges, significant opportunity remains for acquirers to succeed and carve out a differentiating, value-creating role. Bank acquirers in particular have an opportunity to create value by capitalizing on their natural advantage to offer a full suite of solutions, including merchant services.

How should bank acquirers respond? Here are five key steps:

1

STEP #1

Understand and quantify the strategic value acquiring can create

This will depend on the nature of your existing acquiring business, and the way it relates to your wider business banking offer – including the way it is positioned, the characteristics of your customer merchant portfolio, and the type of customer segments and verticals you currently serve.

For example, acquiring can play an important role in your overall merchant value proposition and retention strategy. It can also connect with your broader business product suite, sales processes, and relationship management approach.

Armed with this analysis, you will be better able to quantify the role and value of your existing acquiring business, and to define and size your future opportunity.

2

STEP #2

Formulate a clear strategy

This is about understanding, at a granular level, where you are today and where you want to be tomorrow.

A fundamental requirement is to decide on the strategic function that acquiring will fulfil. For example, will acquiring be a stand-alone offer widely available regardless of banking relationship? Or will acquiring exist solely to serve the bank or organization's broader strategy with existing or potential clients? Will your acquiring offer be built around foundational capabilities for broad merchant segments and verticals? Or will you pursue a differentiated strategy?

In addition, to understand and benchmark your existing performance and track your future performance, good quality market data is critical. Armed with market-wide analytics spend data, for example, you will understand how your performance compares with your peer group.

STEP #3

Know where you can compete and win

Be clear about your competitive strengths and weaknesses, including your existing strengths by vertical, geography, and segment.

Find the hidden wealth within your own business. The better you understand your existing customers, and the more precise you can be in understanding what it is about your existing offer that appeals to them, the better able you will be to defend and extend for your business – and to carve out a sustainable role for yourself going forward.

STEP #4

Know how to compete and win

Determine how you will build on your existing strengths and address your vulnerabilities.

The end game, based on an in depth understanding of your target customers, is to construct a compelling value proposition, establish the critical capabilities that will support it, and deliver on relevant distribution and customer servicing strategies.

The question of verticals has never been more important.For example, whether your payment services are integrated to a merchant's preferred business software may supercede any other consideration. Similarly, some merchants need global support, and to compete, you will need to be able to serve them everywhere.

STEP #5

Determine the necessary resources, capabilities, and infrastructure

Put careful thought into your operating model and how it will be constructed – including the organizational structure, the technical infrastructure, the sales, servicing and relationship management approach, the intra-bank connective tissue and partnerships.

Meanwhile, be disciplined about how to prioritize your capability requirements, with a clear roadmap for strategic initiatives and capability development.

In selecting and optimizing your partnerships, be careful to maintain direct ownership and control of the differentiating aspects of your proposition.

Also, think about partnerships from multiple angles:

- How can they help you to increase your efficiencies?
- How can they enhance your capabilities?
- How can they extend your distribution?
- How can they mitigate your executional risks?

Five characteristics of best in class acquirers

Through our work with high-performing bank acquirers across the world's most competitive and developed acquiring markets, we have identified five characteristics which tend to be shared by the leading players:

CHARACTERISTIC #1

They embrace technology to deliver unique and seamless experiences

There is a sharp focus on the user experience across the merchant lifecycle – and how digital technology can enhance it. From application, onboarding and set-up to servicing, reporting and education, leading acquirers drive value with unique, seamless experiences.

Using technology further enables scale and efficiency, reducing costs while providing the flexibility to create differentiated experiences.

CHARACTERISTIC #2

They target key verticals and segments

Positioning is everything – with a well-defined target audience, a clearly defined segmentation strategy, and a unique and differentiated value proposition.

This clarity of thought and focus drives everything. It informs prioritization of the investment, development and implementation roadmaps,and focuses the sales, marketing, and promotional initiatives.

CHARACTERISTIC #3

They own – and invest in – what is differentiating

There are clear lines about what will and will not be outsourced – and how insourced and outsourced resources and capabilities will be used to optimize the value proposition.

They focus on the customer relationship, the front-end user experience, and all the differentiating parts of the customer journey – and, often, they are willing to outsource everything else.

CHARACTERISTIC #4

They have a clearly defined partnership strategy and value proposition

The ability to maintain the right partnerships is a critical competence. ISV and value-added service partners can help acquirers extend capabilities and distribution, strengthen the value proposition and reduce time to market. Outsourcing partners can provide undifferentiated parts of the value-chain, freeing up internal resources to focus on value creation and core competencies.

Increasingly, there is a culture and a platform to drive ISV partnerships – and an interest in partnering with key ISVs.

CHARACTERISTIC #5

They harness the power of data – both to optimize their business and deliver value to their merchants

Every metric is measured, tracked and benchmarked to monitor performance across key metrics including overall growth, segment and vertical performance, and acquisition and attrition.

In depth analysis can also be used to show the value created for the broader bank or organization, to optimize sales and cross-sell efforts, client lifecycle engagement and predictive attrition models.

Meanwhile, analytics are a key aspect of the value proposition for merchants, helping them to quantify their own performance, identify opportunities for improvement, and optimize efficiencies.

In the acquiring ecosystem, with so much happening so quickly, there is an imperative to set the right course – but also an opportunity to create winning strategies that drive growth while adding value to merchants and the broader organization.

Come talk to VCA to help you chart the path forward.

We are a global team of hundreds of payments consultants, data scientists and economists across six continents.

About Visa Consulting & Analytics

- Our consultants are experts in strategy, product, portfolio management, risk, digital and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics and machine learning with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

For help addressing any of the ideas or imperatives above, please reach out to your Visa Account Executive to schedule time with our **Visa Consulting & Analytics** team or send an email to **VCA@Visa.com**. You can also visit us at **Visa.com/VCA**

Visa Consulting & Analytics is a global team of industry experts in strategy, marketing, operations, risk and economics consulting, with decades of experience in the payments industry. Using analytics from the payment network with the most purchase transactions worldwide, our team of subject matter experts can provide you with proven strategies and data-driven insights that support your business objectives.