

The ISO/ISV Convergence: Do Payments Systems Hold the Key to Helping Both Sides Thrive?



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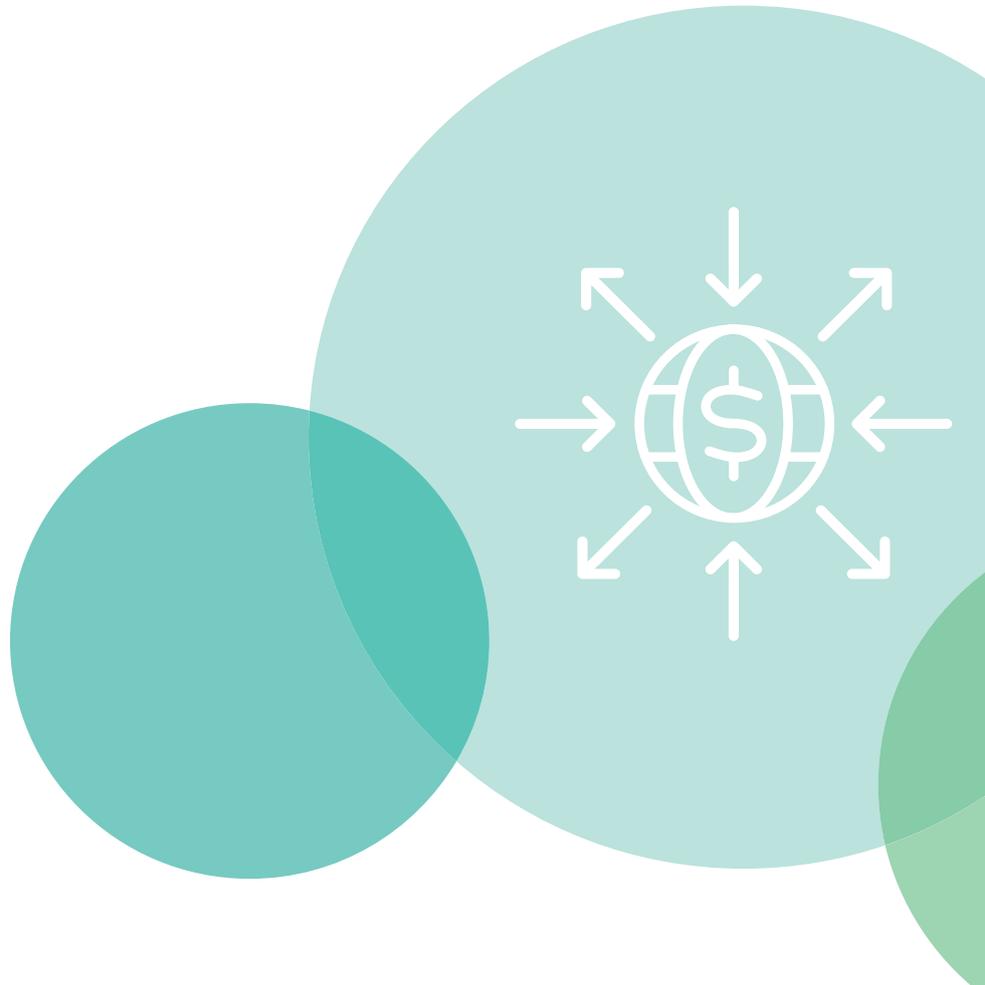
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“It is estimated that there are more than 240,000 fast-food restaurants and 5.5 million small businesses in the US, all requiring access to smooth, frictionless payment solutions to meet their customers’ needs. This access is what Independent Sales Organizations (ISOs) and Independent Software Vendors (ISVs) provide.

“However, new technologies and evolving consumer demands mean that what merchants want from their payments partners is changing. They want solutions to help them compete like a big chain. It’s no wonder, then, that we are seeing so much fluctuation in the ISO/ISV space, with companies on both sides of the divide converging to meet their customers’ needs.

“All of this means that the payments landscape is more competitive and complex than ever before. If they want to survive, both ISOs and ISVs need to make sure they strengthen their relationships with payment partners to ensure they get the help they need to optimize their new services.

“But how can ISOs and ISVs identify the right partner? As this whitepaper from Paysafe shows, there are simple steps that both sides of the divide can take to better understand what potential partners offer, so they can choose the company that will be most supportive for their business and customers. Following these steps, they can be sure they are prepared to face the changing payments landscape, by futureproofing their business and continuing to deliver for the merchant market well into the future.”

Joe Mach, president of Verifone North America

Introduction

“As ISOs and ISVs respond to changing demands from merchants with regards to their payments infrastructure, the line distinguishing the two is becoming increasingly blurred. This offers many opportunities for both sides of the fence to grow market share by expanding their product portfolio, but it poses challenges too. These organizations need support from payment partners to make their service offering fit for the future.”

Todd Linden, CEO of Payment Processing North America at Paysafe

For a long time now, Independent Sales Organizations (ISOs) and Independent Software Vendors (ISVs) have provided individual merchants with the solutions they need to streamline business operations and to provide a great experience for their customers.

ISOs have traditionally provided merchants with a lot of the hardware they need for their business. This can include a wide variety of equipment, from their in-store payment terminals, to their ePayment systems, as well as a wide range of additional assistance, from servicing and customer support, to acquiring.

ISVs, meanwhile, have provided software and online tools designed to support merchants in a wide range of areas, from inventory management and procurement, to providing ways for merchants to establish themselves in online and mobile retail. They also provide payments solutions to streamline the user experience. In doing so, the software sector has really flourished in the US and around the world. From a pool of just 10,000 software companies in 2008, there are now more than 100,000 in 2018. Some experts predict there will be more than one million ISVs by 2030¹.

A payments revolution

This ISO and ISV ecosystem has thrived, supporting merchants in delivering a great service to consumers. Nevertheless, in spite of this success, the landscape has begun to change, especially when it comes to the payments support the two organisation types provide to merchants. There are number of reasons for this:

The US is going cashless

Credit and debit card transactions are fast-overtaking cash purchases not just in the US, but around the world. According to Paysafe’s research for its recent whitepaper, Lost in Transaction, consumer card payments globally surpassed cash for the first time, registering USD \$23.1 trillion². In the US, card payments now represent 40% of all consumer expenditure, while cash accounts for just 10%³. Some 54% of consumers expect to stop using cash in the next few years⁴.

No more “swipe and sign”

The way in which card transactions are made in the US is evolving. Over the last few years, the country has

migrated from traditional swipe and sign cards to the more secure EMV standard – so-called “Chip and PIN” – demanding changes to the hard payments infrastructure in-store. As Paysafe found in its Lost in Transaction report, payment security remains a key concern for consumers worldwide, helping to drive the EMV switch⁵.

According to Visa, EMV has made significant inroads in the US since the major card companies’ first liability shift took effect in October 2015. The number of storefronts where EMV cards were accepted grew from 392,000 to 2.7 million, a 578% increase⁶. As of December 2017, approximately 6 in 10 stores in the U.S. accepted EMV cards⁷.

Over that time number of Visa chip cards in circulation in the US grew from 159 million to 481 million, a 202 percent increase. As of the end of 2017, some 67% of all Visa cards were chip cards⁸.

Diversifying payments options

Alternative payments, such as eWallets, are becoming more and more popular with consumers.

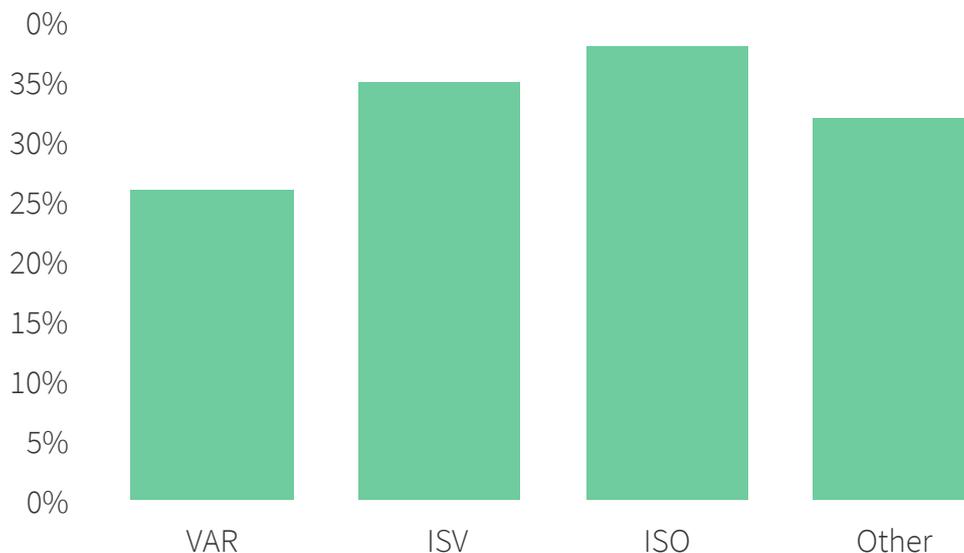
Some 7% of internet users in the US used eWallets daily in 2016, with 5% saying they used them once a week . Globally, there has been a generational shift to mobile wallets, with some 85% of 18-34 year olds expecting to use them in the next two years¹⁰.

Evolving eCommerce space

In addition to all of this, online retail sales continue to enjoy strong growth in the US. The total value of eCommerce sales in the country was an incredible \$360 billion in 2016, and is expected to almost double to more than \$603 billion by 2021¹¹.

This expansion is leading a growing number of traditional “bricks-and-mortar” merchants to explore how they can gain an additional presence in the eTail landscape and benefit from the access to customers far beyond those in easy traveling distance from their stores. Multi-channel customers are typically 15% more profitable than digital-only customers and 25% more profitable than human-only customers so, for many merchants, digital and physical presence is a must¹².

Exhibit 19. Percentage of SMB Clients Requesting Omni-Channel Payment Solutions 2017 Survey Respondents (By Distribution Channel)



Q8: What percentage (%) of your small to medium-sized business (SMB) clients are requesting an omni-channel payment solution (i.e. in-store, e-commerce, order ahead, and/or mobile payment solutions) for their business?
Source: Piper Jaffray Payments Dealer/VAR & ISV Survey; 2017 VAR N=364, ISV N=91, ISO N=31, Other N=21

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Changing merchant demands

Such demands are putting pressure on merchants to upgrade their payment equipment and business software.

For example, more and more merchants are demanding omnichannel solutions with a rise

in consumer demand for mobile wallets, as well as iPOS solutions that integrate with analytics. According to a 2017 report by investment bank, Piper Jaffray¹³, 29% of ISOs, VARs and ISVs say that their SME merchant customers have requested an omni-channel payment solution – a significant increase compared with previous surveys¹⁴.

The demand for more cost-effective mobile POS (mPOS) solutions is also growing, as smaller merchants seek to accept card payments. Piper Jaffray’s survey found that 57% more ISOs, VARs and ISVs are offering mPOS solutions than did in its 2016 study.

In addition, more and more merchants want to offer eWallet payments in-store. Piper Jaffray found that 85% of ISO respondents to its 2017 survey said that at least

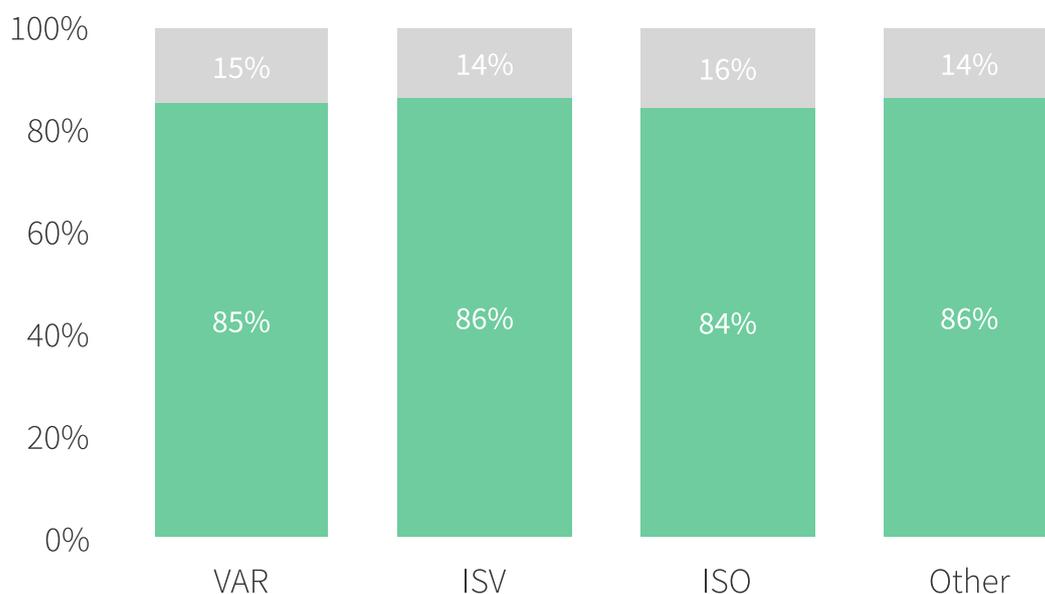
one of their smaller merchant customers had requested such technology, compared with 44% in 2016. Just 26% more ISVs and VARs, however, said that they had been approached by merchants for similar solutions, suggesting that the demand for eWallet acceptance is still in its infancy¹⁵.

“In response to all of these issues, what merchants want from their payments systems is evolving. In addition to the hardware and software to enable them to accept cashless payments in store and online, they want new ways to engage with their customers. Increasingly, these can include: mobile apps and web platforms; as well as innovative personalized loyalty or reward campaigns.”

“In addition, they want software solutions to help them simplify their operations. Platforms for streamlining the inventory process, as well as billing, reporting and scheduling are all becoming more and more popular.”

Todd Linden, CEO of Payment Processing North America at Paysafe

Exhibit 27. Respondents With Clients Requesting and/or Utilizing Mobile Wallet/Digital Payment Solutions
2017 Survey Respondents (By Distribution Channel)



Source: Piper Jaffray Payments Dealer/VAR & ISV Survey; 2017 VAR N=358, ISV N=91, ISO N=31, Other N=21

Blurred lines

“The world of payments is becoming increasingly integrated, as everyone – from the merchant, to the acquirer and beyond – does all they can to provide a smooth, seamless payment experience to consumers. In this climate, it’s no wonder that ISOs and ISVs are both looking at ways of incorporating each other’s products and services into their own offering, to support merchants delivering the best possible experience to their customers.”

Carla Erlick, Senior Vice-President, Sales and Business Development at Paysafe

As a result of merchants’ evolving demands, organizations on both sides of the fence are changing their own offerings.

More and more, we’re seeing ISOs offering services that are traditionally the remit of ISVs, as they seek to respond to merchants’ needs. Likewise, a growing number of ISVs are starting to offer a wider range of services around their software, taking on the aspects of an ISO. For instance, Paysafe’s ISV partner, MINDBODY now derives 40% of its revenue from payments. When it launched in 2000, payments were not part of its core offering.

There are a number of reasons for the two organizations to converge. For ISOs, behaving like an ISV opens up a range of potential new revenue streams, by enabling them to work with new customers they would never have been able to support previously. Going down this route can also help ISOs support merchants in streamlining their supply chain and saving time and resource. Most importantly, though, offering ISV-like services can help ISOs maintain greater control of their customer relationships, so they can optimize retention rates.

When it comes to ISVs, they are adopting the behaviours of a traditional ISO for slightly different reasons. Many are acting in response to pressure from ISOs – especially those that are beginning to act like ISVs. They are evolving their offering not just to maintain their market share, but to expand their business. A number are keen to cut out the middle man in their work with merchants to boost control over their customer relationships.

While the benefits of converging are clear, it does present challenges for both ISOs and ISVs that can hinder the development of their service offering to merchant customers:

- **ISOs need to find software partners and manage the relationship. This can take considerable time and investment to find and embed the right partnerships.**
- **ISVs looking to become ISOs, meanwhile, risk splitting their focus, with repercussions for their core software competency. Again, investment is needed to develop their new offering effectively.**

With these challenges in mind, where can ISOs and ISVs turn for support in navigating this increasingly complex marketplace?

Could payment partners hold the key?

“The US retail landscape is growing more diverse and ever more competitive – merchants want to explore new ways to keep their customers coming through the door or clicking on their website. ISOs and ISVs both need to respond to this need from their customers by providing innovative new payment services that meet their ever-changing demands. PSPs have a key part to play in supporting both sides of the fence to provide these new solutions.”

Sarah Adams, VP Product, Card Present at Paysafe

Payment Service Providers (PSPs) have a key role to play in helping such organizations through this market transition. By choosing the right partner, ISOs and ISVs can ensure they have access to a wide range of services that can help them meet their specific business goals. But what should ISOs and ISVs look out for in a payments provider to address their needs? Here are a few questions all such organizations should consider:

Do they offer a range of payment methods?

Consumers have never had more choice or control over the way they pay for their goods and services. With more and more choosing to opt for alternative payments instead of cards, ISOs and ISVs both need to support merchants in accepting as wide a range of methods as possible to minimise the risk of customers abandoning transactions.

To address this, ISOs and ISVs both need to consider how many payment methods their PSP partners are able to process. Those PSPs that offer a comprehensive selection of payment solutions can help both ISOs and ISVs meet their merchants' needs cost-effectively. This range should include the ability to accept:

- Credit, debit and prepaid card payments
- Payments through eWallets and similar digital solutions
- Pay Later options, allowing consumers to pay in instalments, while enabling the merchant to receive the full balance immediately¹²
- Bank transfers

A single partner providing all the technology required to support merchants in accepting all of these payment methods can significantly streamline an ISO or ISV's supply chain, saving time and resource, while helping them deliver the best possible service to their customers.

What support do they offer to fledgling merchants?

The provision of payment methods for in-store is not the only service that ISOs and ISVs should consider from a PSP partner. With more and more small bricks-and-mortar merchants making the move into the eCommerce space, ISOs and ISVs also need to make sure they are able to support customers in accepting both online and in-store payments.

With this in mind, they need to consider whether their PSP partners provide a complete business management solution – from in-store to online – to ensure they are able to offer their merchant customers with the best possible service to make the eCommerce transition as smooth and straightforward as possible.

Do they offer additional services?

Merchants don't look to ISOs and ISVs solely to meet their payments needs, they turn to them for support in other areas. By working with PSPs that offer exciting value-added services, ISOs and ISVs meet this demand. Through its relationship with global payment and commerce leader, Verifone, for example, Paysafe is able to offer a number of additional services that can help improve the end-to-end experience for merchant customers. In doing so, the company can support ISOs and ISVs both stand out in a competitive market and attract new merchant customers too.

PSPs can help in a number of key areas. For example, they can offer big data that can provide merchants with key insights into customer behavior, such as how buying habits are affected by the weather and at what time of day sales increase for certain types of product. This kind of information can be crucial to help merchants tailor their services to improve their relationship with consumers, and increase their revenue.

How good is their customer support?

Finally, ISOs and ISVs both need to consider the customer services offered by their potential PSP partners in order to ensure they have the guidance they need to face future challenges.

PSPs that offer comprehensive dedicated customer-centric support services can help ISOs and ISVs to explore new technologies and products, providing them with the information they need to develop their own services, so they can deliver the best possible solutions for their merchant customers.

A perfect ISO partnership

Paysafe recently partnered with global payment and commerce leader, Verifone, to become the first adopter to enable ISOs to deploy the fully-integrated cloud-based global product, Verifone Connect, to Quick Service Restaurants (QSRs) and Small and Medium-sized Businesses (SMBs) across the US.

With Verifone Connect, Paysafe can support ISOs to help their merchant customers start, run and grow their businesses with secure and adaptable, end-to-end solutions that not only enable the acceptance of payments but allow businesses to increase consumer engagement and drive efficiency.

The POS solution provided by both Verifone and Paysafe empowers merchants to better manage their businesses with next-generation software and services. Key features include: payment services; estate management; business solutions with merchant and consumer-facing apps; and new device purchasing.

“As SMBs need more options and agile solutions to manage and grow their business, we are simplifying not just their payment needs but working with Paysafe to consolidate critical business apps such as customer and employee management and support into one solution. This partnership signals a new era in merchant POS availability and we’re delighted that we can leverage Paysafe’s extensive merchant base and network.”

Joe Mach, president of Verifone North America

Partnerships are key to success

The merging of ISOs and ISVs is showing no sign of abating, and is the key challenge facing the sector in 2018. To thrive, both sides of the divide need to look for the right partners to meet their needs.

Working with payment providers that are dedicated to pioneering new ways to support both sides of the industry through this convergence phenomenon is central to this. Providers that understand the requirements of ISOs and ISVs can provide both with the insight and guidance to evolve in order to meet their customers' changing needs.

In doing so, we can help everyone in the payment ecosystem thrive in this fast-moving payment landscape.

To find out about how Paysafe can support the growth of your ISO or ISV with integrated payment solutions, please visit

www.processing.paysafe.com.

To discuss the needs of your organization and those of your customers with a Paysafe expert, please contact: iso-isv@paysafe.com.



¹<https://go.forrester.com/blogs/eight-channel-predictions-for-2018/>

²Lost in Transaction: Volume I; Paysafe; 2017

³<http://pifs.law.harvard.edu/wp-content/uploads/2017/11/Visa-Cashless-Cities-and-Digital-Payments-Presentation.pdf>

⁴Lost in Transaction: Volume I; Paysafe; 2017

⁵Lost in Transaction: Volume I; Paysafe; 2017

⁶<https://usa.visa.com/visa-everywhere/security/visa-chip-card-stats.html>

⁷<https://usa.visa.com/visa-everywhere/security/visa-chip-card-stats.html>

⁸<https://usa.visa.com/visa-everywhere/security/visa-chip-card-stats.html>

⁹<https://www.statista.com/statistics/315949/us-digital-wallet-usage-frequency/>

¹⁰ Lost in Transaction: Volume I; Paysafe; 2017

¹¹<https://www.statista.com/statistics/272391/us-retail-e-commerce-sales-forecast/>

¹² <https://www.payolution.com/en/>

¹³ Financial Services & Technology 2017 iPOS Survey: Pressure On Channel Economics, But Non-Economic Elements Also Key; Piper Jaffray; 2017

¹⁴ See Figure 1

¹⁵ See Figure 2

