PRIVATE EQUITY & VC INSIGHTS

Merchant Payment Experience

Payments Insights & Strategies for Investors in vertical SaaS Platforms

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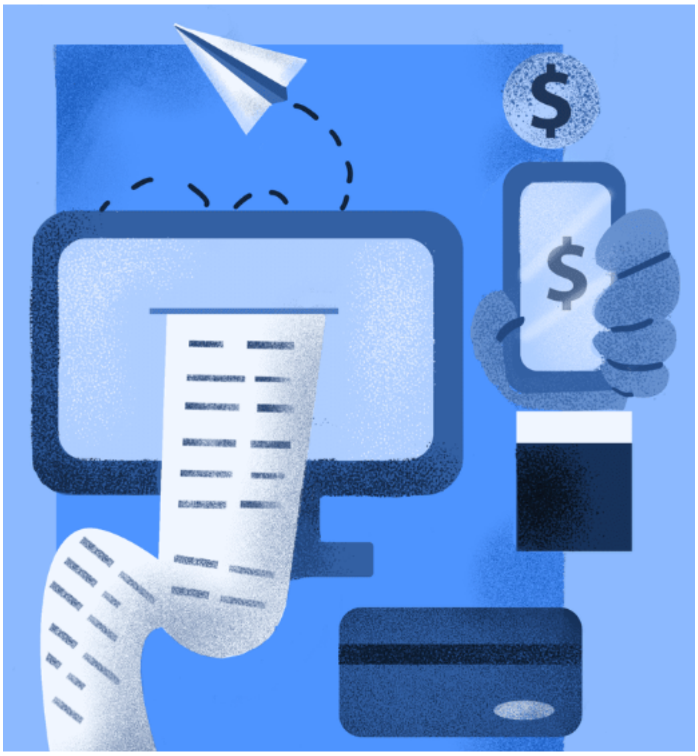
Executive Summary

Private Equity & Venture Capital firms that invest in vertical SaaS platforms have a unique opportunity to drive significant value creation through optimized payment strategies around the merchant experience. Based on Worldpay's latest research encompassing +300 software businesses and ~700 merchants, we share how investors can guide portfolio companies toward enhanced monetization, improved merchant retention, and accelerated growth via embedded payments.

Our findings demonstrate that merchant satisfaction with payment experiences directly correlates with platform stickiness, reduced churn, and increased lifetime value—all critical metrics for PE & VC portfolio performance. This report outlines actionable strategies that PE & VC firms can implement across their vertical SaaS investments to capitalize on the evolving merchant payment landscape and drive enhanced returns.



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Embedded Payments Create Substantial Value for Merchants

Software platforms that incorporate embedded payments create varied & substantial opportunities to enhance a portfolio company valuation through improved merchant relationships, including:

- Revenue Acceleration: Portfolio companies with embedded payments can generate up to 2-5x more revenue per customer than those without payment capabilities. This revenue is typically high-margin and recurring, improving overall company economics and cash flow predictability.

- Valuation Multiplier: SaaS businesses with payments typically command 3-5x higher valuation multiples compared to pure software plays. Our analysis shows that embedded payment revenue is valued at 8-12x ARR compared to 4-6x for standard SaaS subscription revenue, creating significant exit value enhancement.

- Sticky Customer Relationships: 78% of merchants report they would need "significant incentives" to switch software platforms once their payments are integrated. This translates to average merchant tenure increasing from 2.8 years to 4.7 years when payments are deeply embedded, dramatically improving customer lifetime value calculations.

- Competitive Differentiation: In crowded vertical SaaS markets, payment capabilities serve as a powerful differentiator. Companies offering superior merchant payment experiences reported 41% higher win rates in competitive sales situations compared to those with basic payment integrations.

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Merchant Priorities are Shifting

Our research reveals a critical shift in merchant priorities that PE/VC firms should consider when evaluating potential investments or advising portfolio companies on their payment strategies:

- Cost sensitivity is declining: Only 31% of merchants now rank transaction fees as their top consideration (down from 52% in 2020). This presents an opportunity for portfolio companies to compete on value rather than price, improving overall margins.

- New priorities: Integrated functionality (82%), ease of reconciliation (76%), and customer experience (71%) now dominate merchant decision-making. Merchants are willing to pay premium rates for solutions that address these needs, with 58% stating they would accept a 15-25 bps increase for a greatly improved payment experience.

- Technical integrations matter: 67% of merchants will pay premium pricing for solutions that eliminate reconciliation challenges. In particular, real-time settlement reporting (74%), automated chargeback management (68%), and unified reporting across payment methods (82%) were identified as high-value features worth paying for.

- Omnichannel capabilities: 77% of merchants now require the ability to accept payments across multiple channels (in-person, online, mobile, invoicing). However, only 31% of vertical SaaS platforms currently offer truly integrated omnichannel solutions, creating a significant opportunity gap.

- Localization needs: For vertical SaaS platforms expanding internationally, 83% of merchants cite local payment method support as "essential" or "very important" in their platform selection. Portfolio companies often underestimate the complexity of supporting regional payment preferences.

Merchant Experience Gap = Investment Opportunity

Many vertical SaaS platforms still struggle to deliver the seamless payment experience that merchants increasingly demand, creating a significant opportunity for PE/VC investors to drive value creation:

- Experience disconnect: 73% of software platforms believe they deliver excellent payment experiences, while only 38% of merchants agree. This perception gap is most pronounced in areas of onboarding (56% disparity), reporting capabilities (48% disparity), and dispute management (62% disparity).

- Growth inhibitor: Poor payment experiences lead to 3.2x higher merchant churn rates. Our analysis shows that for every 10-point improvement in merchant payment satisfaction scores, platforms see a corresponding 12% reduction in annual churn.

- Development challenge: 64% of software platforms lack the technical resources to build sophisticated payment solutions internally. On average, platforms estimate needing 8-14 developer months to build comprehensive payment functionality, resource allocation that often conflicts with core product roadmap priorities.

- Compliance burden: 79% of platform providers underestimate the ongoing compliance and security requirements of managing payment operations. This includes PCI DSS compliance, KYC/AML procedures, and evolving regulatory frameworks that vary by geography.

- Specialized expertise: Only 23% of vertical SaaS companies have dedicated payments expertise on their executive teams. This knowledge gap often leads to suboptimal monetization strategies and missed opportunities to extract full value from payment flows.

Value Creation Strategies

Based on our findings, we recommend PE/VC firms consider the following strategic initiatives when working with portfolio companies to optimize merchant payment experiences:

1 Conduct a Payment Strategy Assessment

- Assess merchant retention correlation with payment experience
  Segment churned merchants and analyze whether payment friction contributed to their departure. Interview current merchants to identify payment pain points that could be addressed to improve retention.

- Benchmark against industry standards for your vertical
  Compile competitive intelligence on payment pricing within your vertical. We've found that many platforms leave 150-300 bps of potential margin on the table through suboptimal pricing strategies.

- Audit payment-related merchant communication
  Examine how payment capabilities are presented during sales processes, onboarding, and ongoing merchant education. Often, platforms undersell their payment value proposition, leading to lower adoption rates.

- Review technical architecture
  Assess whether the current payment stack can scale with growth ambitions and whether it efficiently supports emerging payment methods relevant to the merchant base.

2 Implement a Tiered Payment Strategy

- Develop multi-tier payment offerings that address different merchant segments
  Create good-better-best payment packages that allow merchants to select their preferred level of functionality and support. Our data shows tiered approaches increase overall payment adoption by 37% compared to one-size-fits-all offerings.

- Create premium payment features that justify higher revenue share
  Build or partner to offer advanced capabilities such as next-day funding, customized checkout experiences, recurring billing optimization, and advanced fraud management. These features can support premium pricing tiers with 30-50% higher margins.

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- Structure merchant contracts to optimize long-term payment revenue
Implement graduated revenue share models that align platform economics with merchant growth. Consider volume-based incentives that reward merchants for processing more volume while maintaining healthy margins.

- Introduce value-added services including embedded financial solutions
Consider complementary offerings such as working capital, business insights, or enhanced chargeback protection that can be monetized separately while increasing payment stickiness.

- Develop data-driven merchant segmentation
Utilize transaction history and merchant profiles to identify high-potential segments for targeted payment product development and personalized pricing strategies.

3 Leverage Partner Expertise Rather Than Building Internally

- Avoid diverting technical resources to payment infrastructure development.
Rather than building payment capabilities from scratch, which typically requires 8-14 developer months and ongoing maintenance, leverage partners with existing infrastructure. This approach typically reduces time-to-market by 60-75%.

- Partner with payment providers offering white-labeled solutions
Select providers that allow your portfolio companies to maintain their brand experience while gaining sophisticated payment capabilities. Ensure these partners can support customization requirements specific to vertical markets.

- Maintain merchant relationships while offloading compliance complexities
Choose partnership models that allow portfolio companies to own the merchant relationship while transferring regulatory burden and security requirements to specialized providers.

- Implement standardized integration approaches
PE/VC investors with multiple vertical SaaS investments should consider developing standardized payment integration playbooks that can be deployed across the portfolio, creating economies of scale in implementation and negotiating power with providers.

- Establish clear payment KPIs
Develop consistent payment performance metrics across portfolio companies to enable benchmarking and identification of best practices that can be shared across investments.

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Conclusion

PE/VC firms that understand the strategic importance of merchant payment experiences in their vertical SaaS investments have a significant advantage. By helping portfolio companies optimize their merchant payment strategies, investors can accelerate growth trajectories, improve exit valuations, and create sustainable competitive advantages.

Our research indicates that successful implementation of strategic payment initiatives typically delivers 200-400 bps of EBITDA improvement. It can also accelerate growth by 15-25% annually through enhanced merchant retention and expanded revenue per customer. An optimized embedded payment strategy focused on the merchant experience can create meaningful differentiation in the crowded vertical SaaS market, supporting premium valuations at exit.

Worldpay's partnership approach with PE/VC firms goes beyond typical payment processing. We offer strategic guidance, merchant insights, investment due diligence and implementation expertise that help your portfolio companies maximize the value of embedded payments.

For more insights & support on how Worldpay can help your PE/VC firm or portfolio investments related to payment strategies, contact our Private Equity Partnerships team.

Source: www.payrix.com/resources/report/merchant-insider-report