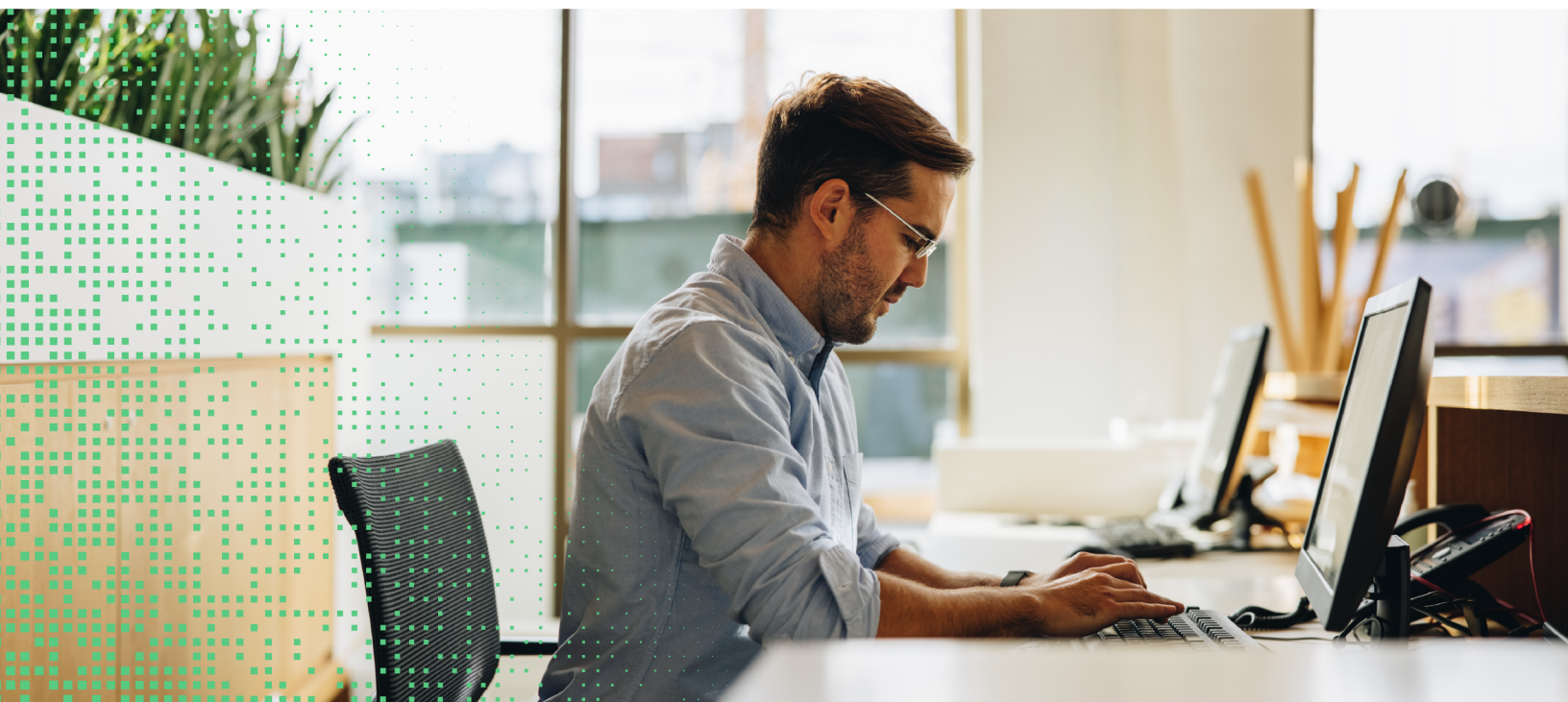




The ROI of Embedded Payments

# How Integrating Payments **Drives Growth for ISVs**



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## EXECUTIVE SUMMARY

Independent Software Vendors (ISVs) are increasingly turning to embedded payments not just to generate new revenue, but to enhance platform value, improve customer retention, and strengthen long-term company valuation. Evidence from TSG's 2024 ISV Conversion Rate Study<sup>1</sup> confirms the financial upside of integrated payments for ISVs.

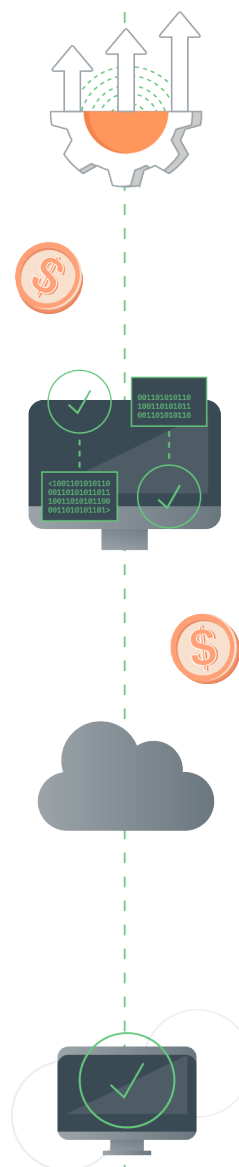
The study found that, on average,

**ISVs achieved a 39% volume conversion rate within the first 18 months of implementing integrated payments.**

For ISVs with higher volumes and more focused vertical concentration, conversion exceeded 50% over the same period.

Key drivers of ROI in embedded payments include organizational alignment, strategic merchant pricing, and revenue-share models. Executives and investors increasingly prioritize payment integration due to its clear impact on customer lifetime value (LTV) and company valuation.

Integrating payments goes beyond generating revenue; it supports sustainable business growth. Backed by TSG's industry benchmarking and expertise, ISVs can assess their current performance, uncover new opportunities, and take meaningful steps toward maximizing the full potential of their platforms.



## WHY EMBEDDED PAYMENTS MATTER

For ISVs, embedded payments unlock a high-margin revenue stream that often exceed earnings from software licensing alone. In some cases, ISVs have generated up to 10 times more revenue by monetizing payment volume than from core software fees<sup>2</sup>.

### The benefits extend beyond top-line growth.

When transactions flow through an ISV's platform, switching becomes harder, improving customer retention. TSG's Acquiring Industry Metrics (AIM) data indicates that integrated payments are associated with a 6-month increase in account lifespan, resulting in higher customer lifetime value (LTV).

Payments also offer scalability. Rather than relying solely on acquiring new software customers, ISVs can grow revenue within their existing base by capturing a share of transaction volume. It also provides a competitive advantage: ISVs that control the payment experience can differentiate their product, reinforce brand loyalty, and defend against other solutions.

It's no surprise, given these trends, that integrated payments have the full attention of software executives and investors. What was once a niche add-on is now a boardroom priority. Many vertical SaaS companies now derive over half their revenue from payments<sup>3</sup>. Venture capital and private equity firms increasingly push ISVs to pursue payments, which can lift revenue by 2–5× per user<sup>3</sup>.

Integrating payments lays the groundwork for future fintech innovation. Once an ISV earns trust through processing transactions, they are well-positioned to offer embedded finance services such as Buy Now, Pay Later (BNPL), insurance and warranties, and digital wallets. These adjacent products deepen engagement and open new revenue streams. Globally, embedded finance is projected to reach \$320 billion by 2030<sup>4</sup>.

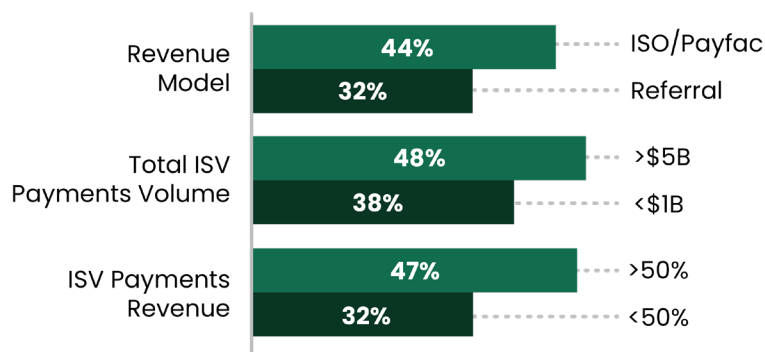
Native payments functionality is no longer just a monetization tactic; it's foundational infrastructure for ISVs looking to scale, retain customers, and build enterprise value.

## WHAT SETS HIGH-PERFORMING ISVS APART

Not all embedded payments programs deliver the same results. Some ISVs unlock significant revenue and adoption gains, while others struggle to realize the full potential. The most successful programs share key alignment characteristics that drive measurable improvements in adoption and ROI.

### Payment Volume Conversion Rate

(First 18 Months)



### Operational Focus

Top-performing ISVs treat payments as a core business function, not a side project. They invest dedicated resources like product managers, developer time, sales teams, and operational support to achieve higher conversion. TSG's ISV Conversion Rate Study found that when payments account for 50% or more of total company revenue, conversion rates exceeded those of less focused peers by 15%.

### Integration Quality & Onboarding Experience

The payment experience must be seamless. ISVs offering deeply embedded payments, intuitive onboarding, and proactive support consistently outperform those offering bolt-on solutions. According to TSG's study, ISVs with native payment solutions saw conversion rates nearly 12% above non-integrated options. In some verticals, that impact is even more pronounced. In healthcare, the adoption rate gap widened to nearly 30%.



## ISV Size & Customer Base

Higher payment volumes amplify revenue opportunities and justify deeper investment. ISVs with more than \$5 billion in available payment volume saw adoption rates 10% higher than those with \$1 billion or less. These higher volume ISVs tend to prioritize payments more strategically, recognizing the revenue potential and aligning resources accordingly.

## Revenue Share & Margin

The structure of the payments relationship plays a significant role in ROI. ISVs earning 20% or less through referral models often lack the incentive to invest and it shows in the results. According to TSG's study, adoption rates in low-revenue-share models averaged around 32%. In contrast, ISO and Payfac models with revenue shares above 50% are more likely to reinvest in the product and experience. The result is a 12% higher conversion rate. While deeper involvement requires more operational responsibility, the financial upside is clear. ISVs that regularly assess their partnership model tend to capture more value as their payments volume scales.

## Pricing Model

Pricing alone doesn't determine success, but it does shape merchant preferences and can influence adoption. Larger merchants often prefer interchange-plus models for transparency, while SMBs lean toward tiered or flat-rate pricing for simplicity. TSG's study suggests a slight adoption advantage for tiered or flat-rate models, which may be reflective of an SMB-heavy respondent base. Understanding merchant expectations can help ISVs avoid friction and improve onboarding experiences.

On the monetization side, ISVs use a range of models to capture payments value:

- **Subscription-Based:** Payments are bundled into the software subscription fee. Adoption is often high, but revenue is constrained by a software pricing ceiling. With only one pricing lever, it can be harder to optimize or adjust over time.
- **Hybrid:** Combines recurring software with transaction fees. This model balances predictable recurring revenue with upside from payment volume and is popular with scaling ISVs.
- **Payments Only:** Software is free or low-cost, with revenue driven by processing fees. This can accelerate acquisition and scale but requires strong margins and high volume to be sustainable. This model is high risk, high reward.

There is no universal best model. The most successful ISVs continuously test, adapt, and optimize merchant pricing and monetization strategies to align with customer behavior, market positioning, and growth goals.

Success stems from intention: investing in the right areas, aligning incentives, and delivering a strong merchant experience. These efforts translate into measurable gains in adoption and revenue. With a clear understanding of what drives ROI, the next step is building internal alignment around the opportunity and making the case for deeper investment.

MODEL	MARGIN POTENTIAL	RISK LEVEL	OPERATIONAL COMPLEXITY	SCALABILITY	ISV PROFILES
Subscription	Low - Moderate	Low	Low	Limited by software pricing	Strong software value prop; low payments volume
Hybrid	High	Moderate	High	Flexible but resource intensive	Scaling volumes; balancing predictability with upside
Payments Only	Very High	High	Moderate	Volume-driven growth	Merchant resistance to software fees; software can't recover payment costs



# MAKING THE CASE INTERNALLY

Internal support for payments integration is essential. Building that alignment requires clear benchmarks, stakeholder-specific messaging, and a shared understanding of long-term value.

## Using Benchmarks to Justify Investment

Objective data helps shift conversations from opinion to impact. Over an 18-month period, ISVs in TSG’s study saw an average 39% increase in payment conversion volume, demonstrating that embedded payments can meaningfully scale over time.

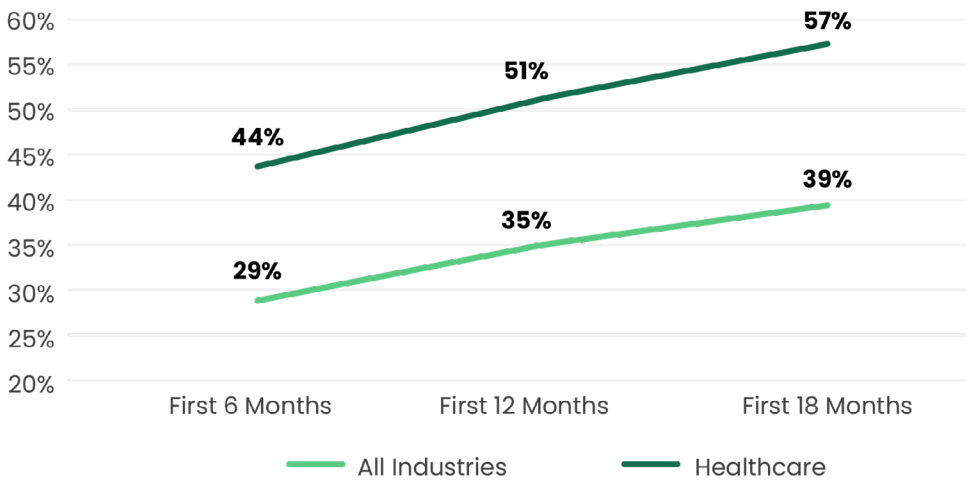
Merchant payment mix also plays a role: conversion rates were 13% higher among merchants whose card volume exceeded 75% of total payments, compared to those where cards made up less than 50%. This suggests that ISVs serving card-heavy verticals may see faster adoption and stronger returns.

Beyond adoption, payments contribute to:

- Increased customer LTV through reduced churn
- Improved valuation metrics due to predictable, high-margin revenue
- Revenue diversification and expansion

Industry-specific benchmarks can further strengthen the case. In healthcare, for example, ISVs saw 57% adoption over the same 18-month period referenced above, compared to 39% across all verticals. These data points help illustrate the potential return and reduce perceived risk when advocating for payments.

**Payment Volume Conversion Rate**  
(First 18 Months)





## Tailoring the Message for Key Audiences

Different stakeholders care about different outcomes. A one-size-fits-all pitch rarely works. Instead, tailor the message to what matters most:

- **Executives:** Emphasize revenue lift, valuation impact, and market defensibility. Highlight how integrating payments can increase LTV and reduce churn.
- **Product Leaders:** Focus on the user experience. Integrated payments can streamline workflows, increase adoption, and strengthen the product's competitive position. Show how payments align with the broader product vision.
- **Investors:** Frame payments as a source of differentiated value. With strong ROI potential and favorable margins, payments can materially improve the company's financial performance and competitive standing.

Evidence-driven conversations help turn curiosity into commitment. Making the case means going beyond data to help executives, product leaders, and investors see the strategic value of embedded payments and support that vision. With that alignment in place, ISVs are better positioned to execute effectively and achieve meaningful growth.



## UNLOCKING VALUATION






Nowhere is the influence of embedded payments more apparent than in the capital markets. From IPOs to acquisitions and funding rounds, integrated payments repeatedly surface as a key factor in ISV valuations.

Embedded payments drive growth, and the examples are clear:

- **Toast:** Pivoted to a payment-first model which helped grow valuation from \$4.9B (2020) to over \$20B at IPO (2021)<sup>5</sup>.
- **Square:** Built an end-to-end Payfac stack that contributed to more than 400% stock growth post-IPO<sup>6</sup>.
- **Shift4:** Reported \$45 billion in end-to-end payment volume from merchant customers in Q1 2025, a 35% year-over-year increase<sup>7</sup>, fueling a nearly 35% rise in stock price over the past year and bringing its market cap to ~\$9.8 billion by July 2025<sup>8</sup>.

Investors favor high-margin, recurring revenue. Embedded payments deliver by increasing stickiness, extending LTV, and unlocking monetization beyond core software. The most successful platforms go further by controlling the tech stack, gaining additional margin and driving enterprise value. Ramp, an expense management platform with embedded payments, grew annual volume from \$10 billion to \$55 billion in two years and doubled its valuation to \$13 billion<sup>9</sup>.

Embedded Payments also fuel mergers and acquisitions. In the years leading up to its \$4.3 billion acquisition by Global Payments (GPN) in 2016<sup>10</sup>, Heartland pursued a strategy of acquiring POS systems such as Digital Dining and pcAmerica to expand its merchant base and integrate payment processing. After the acquisition, that strategy continued under GPN with the purchase of MobileBytes in 2019, which was integrated into Heartland's restaurant-focused offerings. These moves highlight how combining software and payments increased stickiness and revenue per merchant, contributing to Heartland's long-term strategic value.

	PAYMENTS STRATEGY	NOTEABLE METRICS
	Pivoted to payments-first model	Valuation grew from \$4.9B to \$20B at IPO
	Built end-to-end PayFac stack	400% stock growth post-IPO
	35% YoY increase in embedded payments volume	35% increase in stock price with \$9.8B market cap
	Strategically embedded payments	Grew annual volume from \$10B to \$55B in 2 years
	Targeted acquisitions of payments-enabled POS systems	Acquired by GPN for \$4.3B in 2018

These examples underscore that embedded payments are a valuation driver. As more businesses integrate payments into their platforms, investors are paying closer attention to how those models affect growth, margins, and long-term sustainability. Companies that own the payment experience and integrate it tightly into their software stack are commanding higher multiples and attracting buyer attention. Ultimately, embedded payments are becoming a signal of operational maturity and market readiness, and these qualities are playing a growing role in how companies are perceived by investors.



## CONCLUSION: NEXT STEPS TO MAXIMIZE POTENTIAL

Integrated payments have become a central driver of ISV performance, influencing not only top-line revenue but also customer loyalty and long-term valuation. ISVs that invest in thoughtful integration, align internal resources, and adopt revenue models that reward deeper engagement consistently outperform those that treat payments as an afterthought.

Conversion improves when onboarding is seamless, customer support is reliable, and the payment experience is embedded directly into the software workflow. Revenue share structures that reflect the ISV's level of involvement lead to stronger financial outcomes, while pricing strategies that align with merchant expectations help reduce friction and accelerate adoption.

Beyond payments, ISVs have an opportunity to expand further into embedded finance by offering services like lending, insurance, and digital wallets that build on existing trust and infrastructure. These extensions not only diversify revenue but also deepen platform stickiness and competitive differentiation.

Now is the time to take stock. Assessing current performance and mapping out a strategy for growth can create real momentum. TSG's ISV Go-To-Market services are designed to support that process, helping ISVs benchmark their progress, refine their approach, and capture more value from every transaction. ISVs that act now will help shape the next wave of fintech innovation.



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