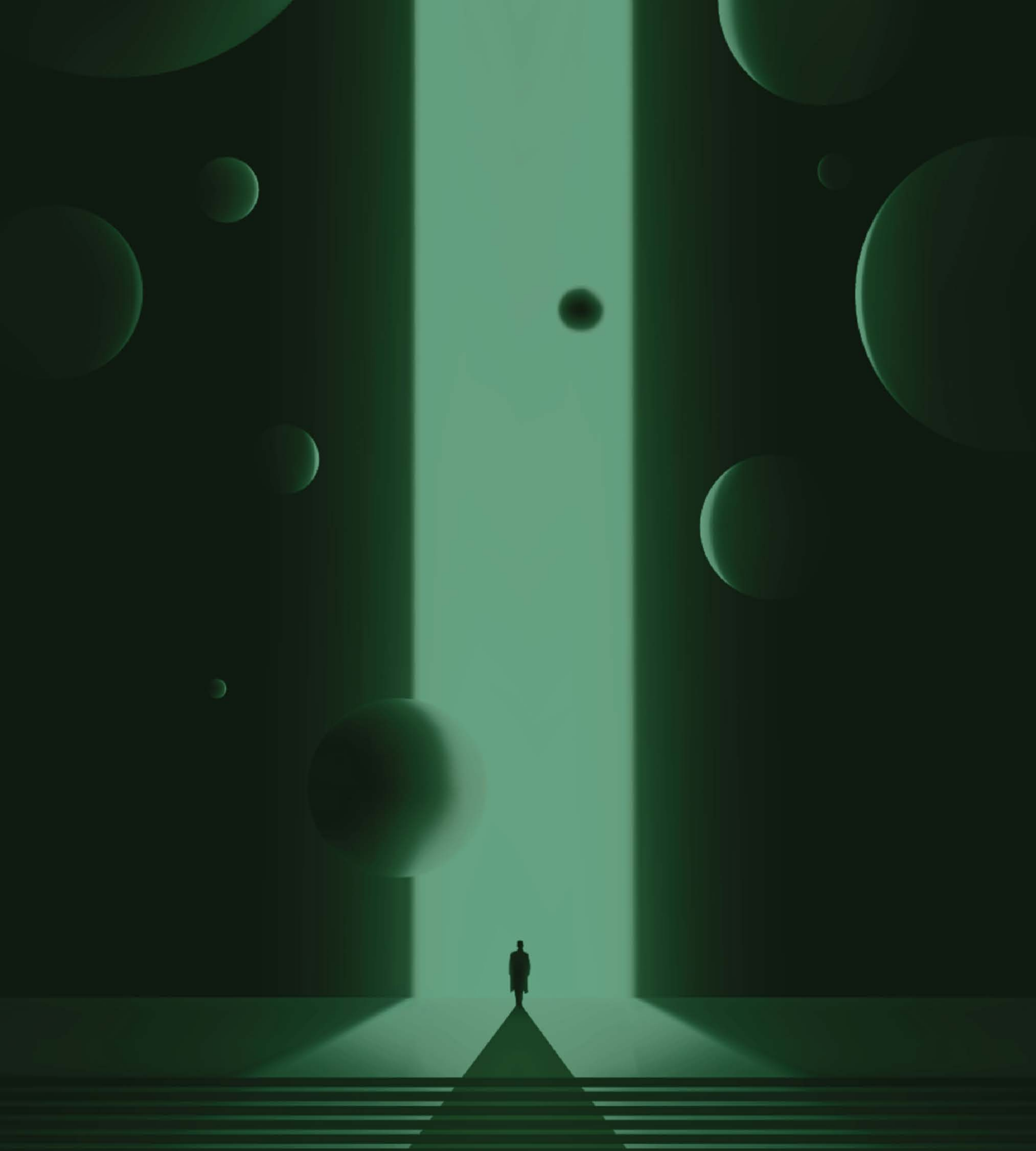


Payments Experts. Powerful Data.
THE STRAWHECKER GROUP®

2021 Payments Insights

PAYMENTS IN MOTION

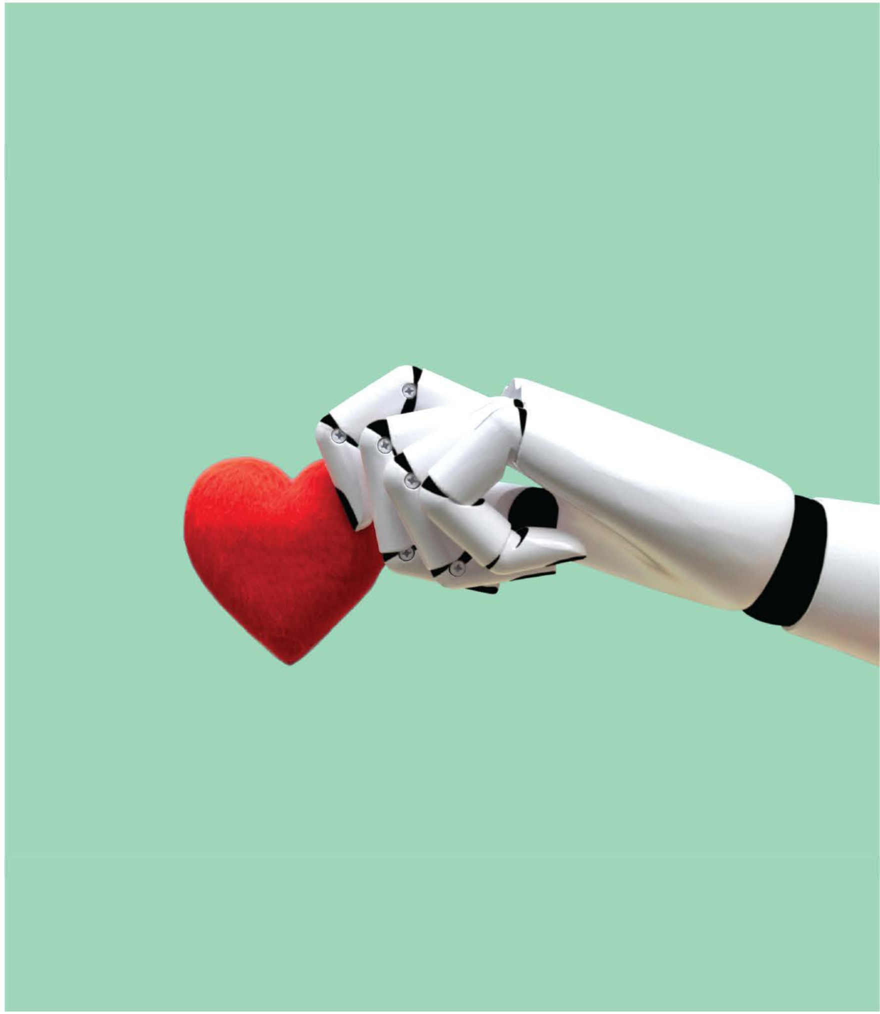
Data driven insights for a rapidly changing world

CONTENTS

~~LOVE~~ DATA IS ALL YOU NEED

Companies across the ecosystem are beginning to recognize the importance of data and data-driven decision-making. Today, every business relies on small or big data and valuable insights derived from it. Payments providers possess a gold mine of data but the complexity of platforms, unclear data strategy, poor data architecture, and limited data capabilities have impacted their ability to effectively monetize or leverage these assets. While building data environments was a major priority in prior years, 2021 will see major payments providers transition their focus to making their data more accessible, and ultimately more useful.

Some payments companies will prioritize data analytics above all other strategic initiatives, and for good reason. For one, the shift to digital has created greater demand for enhanced authorization, real-time data connectivity, better data-enabled fraud management, and sub-merchant underwriting decisions.



What's your data plan for the new year?

FAKE IT 'TIL YOU MAKE IT

Although we've seen many great developments on the connected commerce front, the industry is still miles and miles from this reality or utopia of sorts. In this type of world, the unnecessary friction of payments has been removed and a consumer's life (along with payments) is connected seamlessly through every journey and channel. Ultimately, the impact to payments in this world is that the consumer transaction is pushed behind the scenes and is invisible (a consumer may not even think about payments in this type of world).

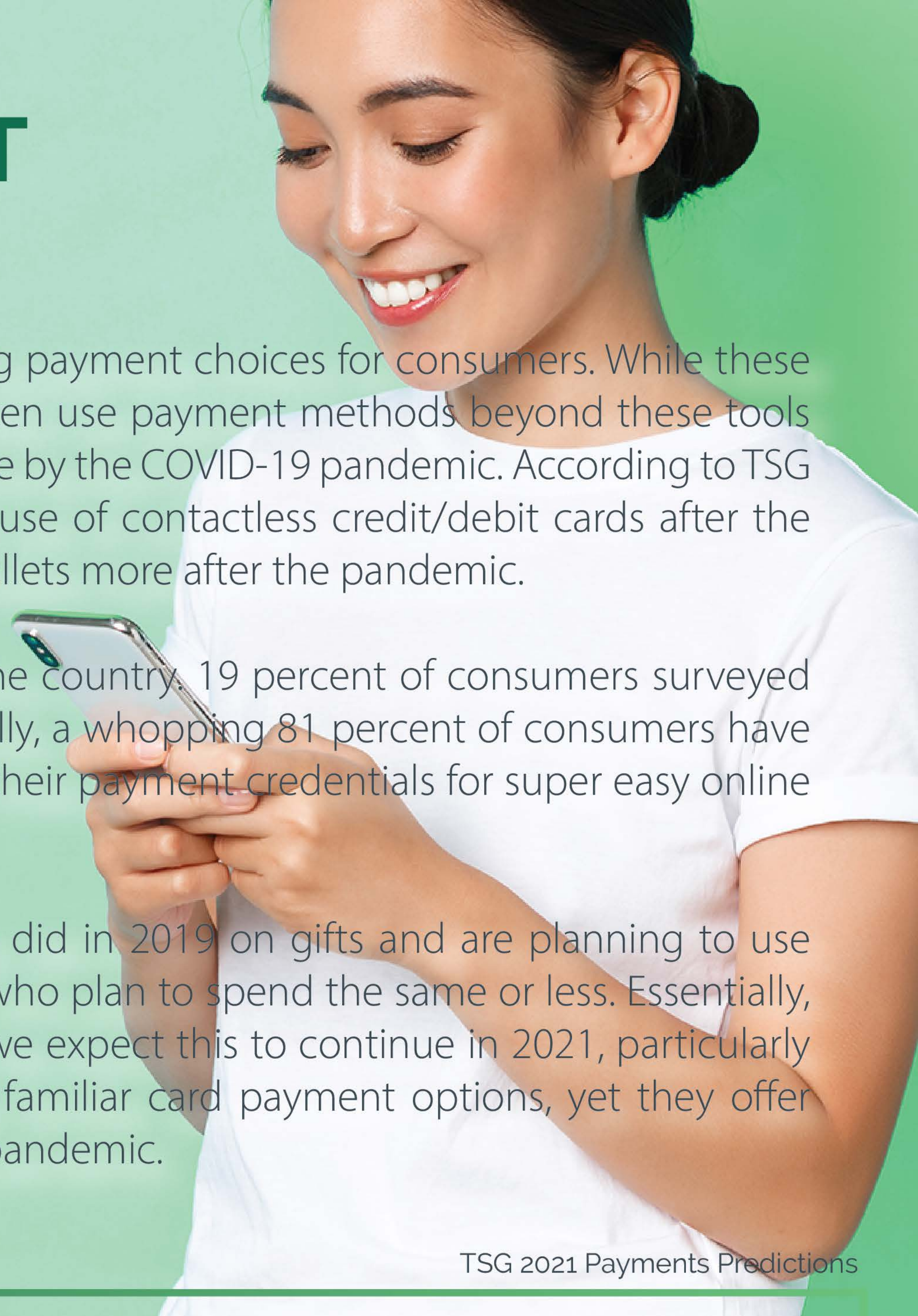
Although we are still far from the connected life reality, that will not prevent a vast amount of merchant acquirers/payment providers to market and/or claim that they offer the most transparent, seamless, frictionless, flexible and omnichannel capable solutions in 2021. As the number of devices, interfaces, payment instruments, and channels continue to increase, payments providers are in a privileged position to aggregate, organize, and monetize a "best route" experience. However, there is still a long way to go. In the meantime, in 2021, we'll enjoy all of the great marketing campaigns from various payment providers touting their services as being the most flexible, seamless or transparent.

GREATER VARIETY IN PAYMENT METHOD USE IN THE U.S.

In the U.S., traditional physical credit/debit cards and cash are long-standing payment choices for consumers. While these methods will remain strong, next year, TSG expects consumers to more often use payment methods beyond these tools more than ever before, in part due to consumer behavior shaping being done by the COVID-19 pandemic. According to TSG and ETA's recent consumer survey data, 55 percent plan to increase their use of contactless credit/debit cards after the COVID-19 pandemic ends, while 34 percent expect to use digital/mobile wallets more after the pandemic.

Digital buy now, pay later methods such as Klarna, are also increasing in the country. 19 percent of consumers surveyed stated they like using these tools and plan to do so in the future. Additionally, a whopping 81 percent of consumers have used "one-click" or saved account payment methods where they can store their payment credentials for super easy online checkout.

This holiday season, consumers that plan to spend much more than they did in 2019 on gifts and are planning to use payment options that include QR codes at greater frequencies than those who plan to spend the same or less. Essentially, consumers are being more open to non-traditional payment options and we expect this to continue in 2021, particularly higher use of contactless credit/debit cards, as these tools are closest to familiar card payment options, yet they offer touch-free capability, something consumers are more mindful of since the pandemic.



Related Content: TSG/ETA Consumer Spending Infographic

TO BUY OR TO SELL, THAT IS THE QUESTION

Every merger and acquisition transaction in the payments space and its resulting multiple is very unique based on factors such as sales channel, geography, size of merchants, merchant type, and much more. The culmination of these factors, and the ongoing pandemic, may result in a buyer's rather than a seller's market. Now more than ever it is important to understand the true value of a portfolio, and the factors that affect it.

Going forward, deals may be heavily structured with earnouts and seller notes. This may include a big change in cash at closing, as a percentage of payments with elongated earnouts, to allow for a portfolio to prove out its value. Of course, all of this may be impacted by the other assets in the business beyond the merchant portfolio such as technology, sales channels, and other not easily replicated tangible parts of the business that buyers seek.

Related Content: What's My Multiple Infographic

A REVISED APPROACH TO THE PUBLIC MARKET

The growing competitiveness of the payments industry continually pushes companies to seek growth through market expansion and enhanced product offerings. While growth through acquisitions expedites this process, the primary goal for many companies is to become publicly traded. With COVID-19's economic impact affecting the market in 2020, many companies have put their IPO plans on pause or have gone through more untraditional routes to become listed.

This brought a lot of attention to Special Purpose Acquisition Companies (SPACs) as a safer path to the public market, with several payment entities including Paya and Billtrust being acquired by SPACs in the second half of 2020. With some enduring economic uncertainty heading into 2021, the prevalence of SPACs will likely persist in the payments space as a secure method for growth in the public market. The payments industry has continually shown to be a lucrative industry over time as the shift towards digital payments and online spending continues to grow, which in part attracts investors and buyers alike. With an upsurge of SPACs already on the market, it is suspected that an increase of their activity involving payment companies will play a significant role in the upcoming future.

THE DEMISE OF B2B CHECKS

The lack of physical attendance will begin to question if check payment of invoices (B2B) is on its deathbed in the 21st century. With a renowned amount of payment options available, the shift away from check payments has been persistent for some time. As companies continue to seek options to simplify their accounts payable, many digital providers and platforms have emerged in the market offering a more streamlined approach. The continual adoption of these platforms limits the growth of checks, and further increases ACH and card-based transactions. Checks will likely experience a downturn in 2021 as more companies move towards digital payment solutions.

Related Content: B2B white papers

INTERCHANGE OPTIMIZATION: THE NEW 'PRICE'

Interchange is top of mind for pricing teams across the payment ecosystem as the largest cost to a merchant acquirer as it relates to merchant processing. Typically adjusted twice a year, payment's companies need to keep up to maintain margins. Pricing with an interchange plus methodology (pass through interchange to the merchant plus an additional per transaction amount or % charged to the merchant) maintains margin regardless of interchange releases. With the proliferation of flat or simplified pricing, managing downgrades and optimizing interchange is essential to optimizing profitability.

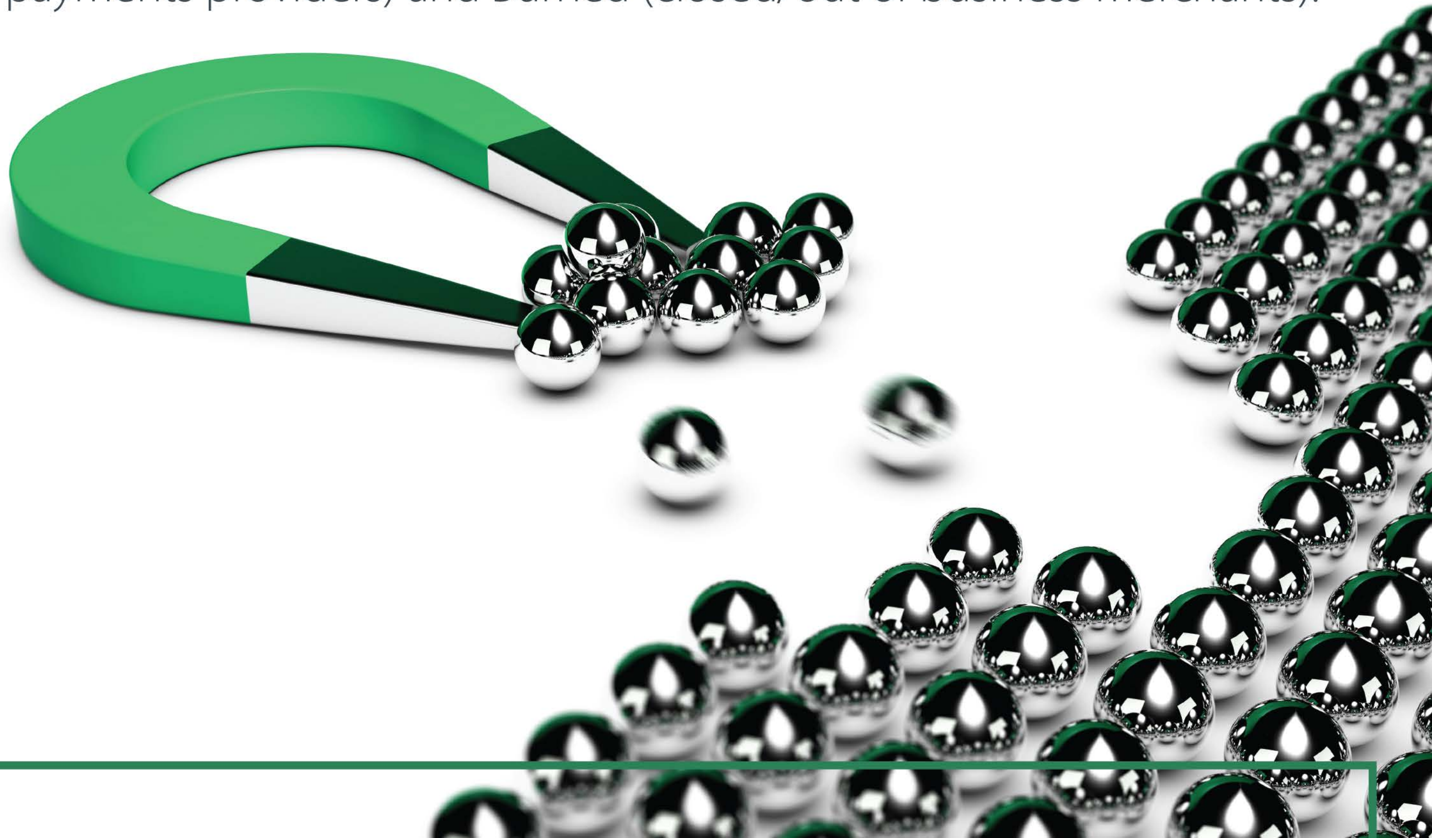
PRICING BEYOND RATES

The advancement of integrated solutions and value-added offerings that benefit a merchant's business can take many shapes including, but not limited to, inventory management, scheduling, and online ordering. Core-processing revenues makeup only a portion of the acquirer's revenue stream. As such, additional fees for value added services present a great opportunity to boost bottom lines.

RETENTION OVERTAKES SALES AS PRIORITY #1

While sales and growth are in the DNA of all industry executives, we are seeing many TSG clients turn to merchant retention as a key to a winning 2021 strategy. First, in order to build a strategy for retention, understanding why merchants leave is important. TSG is developing tools within its AIM platform that allow portfolio managers to break apart "attrited merchants" into two groups: Churned (merchants that changed payments providers) and Burned (closed/out of business merchants).

In addition, TSG is working to augment its AIM offering to provide customers with predictive attrition analytics that will be able to identify merchants that have a high risk of attrition before they attrite, allowing acquirers to proactively work to retain high value merchants.



Learn More about TSG's AIM platform

ARE GATEWAYS READY FOR THE GREAT ECOMMERCE MIGRATION?

As eCommerce spending accelerates at an even greater rate due to the change in spending preferences brought on by the pandemic, the role of payment gateways is as crucial as ever. A high functioning and efficient gateway is the backbone of each transaction and performance will be tested going forward as they facilitate a higher amount of volume. According to Adobe Analytics, consumers spent $9B online on Black Friday, an increase of 22% over last year. This migration to eCommerce will continue well into 2021 and beyond as consumers look to "add to cart" from their homes.

In addition to transaction performance, factors such as authorization failure rate, API accessibility, ease of onboarding, methods of payment supported, vertical and geographic reach, and overall cost will continue to be critical attributes for leading payment gateways.

How is your gateway navigating the shift to eCommerce?

Related Content: The Great Migration to eCommerce Infographic

THE ENGINE THAT MAKES PAYMENT GATEWAYS ROAR

Today's gateways have a wide range of API offerings, but are their features or functionality ready for an influx of developers? As we head into 2021 and even more merchants and their developers assess potential gateway partnerships, it is even more critical that this 'engine' is easy to integrate, with minimal impact to the merchant or the developer. Developers will be focused on APIs that possess a sandbox environment to allow for testing, as well as detailed documentation to troubleshoot issues without technical assistance.

WHATS NEXT? PAY-BY-TEXT.

Given the need for merchants to expand their efforts in commerce, and merchant acquirers/ISOs seeking to offer new services to the merchant base they target, we expect to see an influx of pay-by-text technology rolled out as a value-added service.

Five billion people globally send and receive SMS messages (~65% of the world's population), while in North American 292 million, or approximately 80 percent of the population, use text messages. Did you know: 66 percent of consumers say they would pay more for something if it was supported by a mobile messaging channel.

We predict the payments industry will see large acquirers roll this functionality out as a value-added service and distribute a "white-labeled" solution downstream to ISOs they support. This will be achieved by either acquiring the technology to support this method of payment (MOP), or through partnerships with existing pay-by-text providers. Early adopters of this type of commerce (bill collection, charities, etc.) will become the hallmark of more mainstream industries looking to branch out and make connecting customers and payments seamless...all from the comfort of their smartphone.

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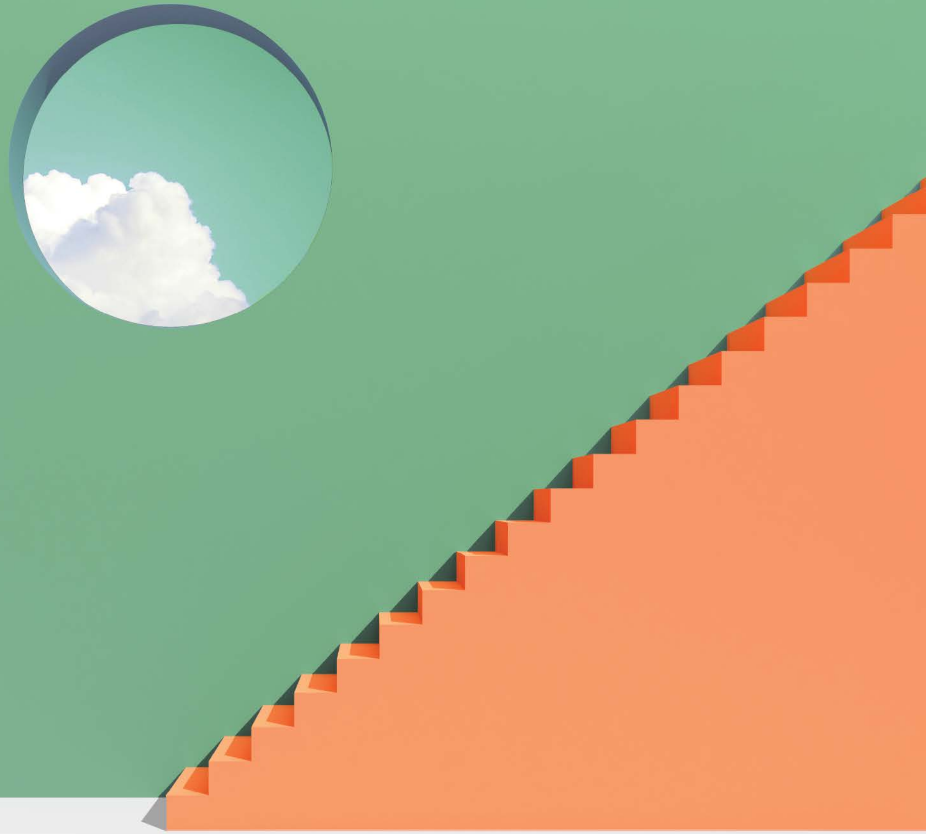
ARE YOU READY FOR WHAT'S NEXT?

This data is an example of the type of actionable research and data TSG can prepare based on your needs. Whether it is strategy, research, analytics, or performance we can help.



Let us know your needs by emailing
Info@TheStrawGroup.com

ABOUT TSG

The Strawhecker Group (TSG) is the largest analytics and consulting firm focused on the payments acceptance industry. TSG serves the entire payments ecosystem and has experience in working on large-scale projects for the world's biggest payment players. The firm has worked with all card networks, nine of the top ten merchant acquirers in the U.S., as well as leading private equity firms and investment banks. The firm's 50-person workforce is primarily in Omaha with satellite offices in Sacramento, Denver, and London. For more information please visit www.TheStrawGroup.com.

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