

LEVEL UP: Growing Software Company Revenue



Software companies can make **10x more** revenue by monetizing payments in their systems than from software license fees alone. This infographic illustrates different models ISVs can consider to achieve success in payments.

Related: [Options Abound for ISVs in the Payments Space](#)

WHY MONETIZE?

Software companies can take their revenue growth to the **NEXT LEVEL** by monetizing payment processing activity.

Software companies can monetize payments from their merchant customers, creating a valuable revenue stream and strengthening customer relationships. However, careful planning and evaluation are necessary before implementing a suitable payments monetization model, including determining risk tolerance and resource allocation.

Example Opportunity: TSG helped an ISV serving the manufacturing industry create \$1.7M in new annual revenue

There are four main models that software companies can adopt to enjoy the revenue that monetized payment flows bring:



- Referral Model
- Retail ISO Model
- Payment Facilitator Model
- Wholesale ISO Model

REFERRAL MODEL

The referral model is perhaps the most commonly executed as it is the simplest to implement but also the least lucrative.

Under this model, there are very few regulatory requirements, liabilities, and close to no resource requirements on the side of the software company.



The software company partners with an established merchant acquirer

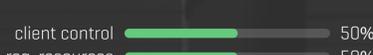
The software company then refers their clients to the selected payment partner(s)

If the referral is successful, the software company may receive a success fee

RETAIL ISO MODEL

For software companies looking for a bit more control of their client's experience, becoming a registered retail ISO (Independent Sales Organization) is a more attractive option from a financial perspective.

This model has a drastically higher upside than the referral model but also requires increased responsibilities, resources, and infrastructure.



The software company partners with an established merchant acquirer and sponsor bank

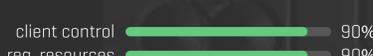
The software company may support some operational aspects of managing the merchant/client relationship

The merchant acquiring partner typically shares a percentage of the processing revenue generated from payments volume flowing through the software company's platform

PAYMENT FACILITATOR MODEL

This model requires an in-depth understanding of the payments ecosystem and chain of risk. Software companies attempting to implement this model successfully should be prepared to make substantial investments in technology and talent to support such a significant undertaking.

Software players looking to become payment facilitators typically comply with higher PCI security standards and assume responsibility for sales, support, risk management, credit risk, and complete management of the payment processing services offered through their business.



Software companies must establish an operational posture reviewed and approved by their sponsor bank, processing partner, and technology partner(s) to facilitate the transaction processing service

It also requires registration with governing entities, substantial operational/technological resources, along with payment processing competency

Software players looking to become payment facilitators typically assume total financial liability, meaning that a payment facilitator will take on all credit losses, fraud losses, and responsibility for daily funding of sub-merchants

With these increased responsibilities, the software company can earn a more significant percentage of the payment revenue for the volume they are facilitating and maintain greater control of the client experience

WHOLESALE ISO MODEL

The wholesale ISO model is very similar to the payment facilitator model, with a few distinct differences.

This model brings total fiscal liability, compliance with data security standards, and full support of sales, underwriting, fraud, and more.



Like the previous model, it requires the establishment of an operational payments business, a sponsor bank and high-volume processor, registration with the card brands, and a hefty support structure to sustain such an operation

This model comes with a financial barrier due to the number of resources it takes to support

However, it is among the most lucrative models in terms of the percentage of payment volume the software company can monetize and allows them to have nearly complete control of the merchant experience

Payment processing monetization is a NEXT LEVEL opportunity for software companies

Software companies need to formulate a monetization strategy by determining the desired level of monetization, risk appetite, and the right payment processing partner for their situation.

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APRIL 24-26

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