The Embedded Payments Guidebook:

Turning Payments into a Strategic Asset

fortis

Introduction

In an increasingly digital world, payments have undergone a transformation. Traditional methods like cash and checks are giving way to digital alternatives such as Apple Pay and Venmo. This shift is shaping the landscape, with the value of digital transactions projected to reach $14 trillion by 2027, a 65% increase from 2022's $8.49 trillion.[1]

Today, a significant portion of digital transactions occur within shopping or purchasing platforms, seamlessly integrated into the user experience. From food deliveries to hotel bookings, consumers can make purchases with just a few clicks. With 9 in 10 consumers using digital payment methods[2], business leaders across industries are seeking solutions to make payments even more integrated, seamless, and inconspicuous. This trend extends to B2B transactions, where 40% of payments are still made by check.[3] Software providers are uniquely positioned to facilitate frictionless experiences in both B2B and B2C markets.

This guidebook includes information about:

The Basics of Embedded Payments

Embedded payment solutions integrate payment functions, such as backend processing systems, into a software application. They enhance customer satisfaction and increase conversion rates by simplifying the payment process. A complicated checkout process can lead to cart abandonment by about 18% of online consumers.[4] By incorporating payment functionalities directly into existing platforms, applications, or processes, a smoother experience is created for the consumer. This approach eliminates the need for users to navigate to separate payment gateways or third-party websites, streamlining the payment process and enhancing convenience.

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18%

In sectors like healthcare, retail, and hospitality, hardware like card readers and mobile point-of-sale devices can also be integrated for in-person transactions. This comprehensive payments platform can include features like text-to-pay, HSA acceptance, and digital wallets, enriching the embedded payments ecosystem.

By embedding payment capabilities, businesses offer a more cohesive and efficient user experience, resulting in higher engagement and loyalty. The customer experience drives over two-thirds of consumer loyalty, surpassing brand and price combined.[5] For payments, the most valuable experiences are those that flow seamlessly, almost imperceptibly.

When independent software vendors (ISVs) and other software providers integrate payment functionality into their solutions, clients seeking electronic payment acceptance can readily access these features via their existing relationships. This eliminates the need for software subscribers to seek external payment partners, boosting their satisfaction and deepening the relationship between software providers and their clients.

The Business Benefits of Embedded Payments

Embedded payments play a crucial role in optimizing operational efficiency and reducing errors for businesses. They eliminate the need for employees to switch between different systems or manually input transaction data. Invoicing and accounts receivable functionality allow for more organic, automated payment processes, reducing reliance on checks and invoice chasing.

Automation also speeds up transaction processing, freeing up valuable time and resources. Over 90% of workers report increased productivity due to automation solutions.[6] This allows businesses to allocate personnel to more strategic tasks, ultimately improving productivity.

Savvy software providers know business leaders are searching for tools that will enable their companies to enhance overall performance, and they're delving deeper into the domain of embedded payments to answer the call.

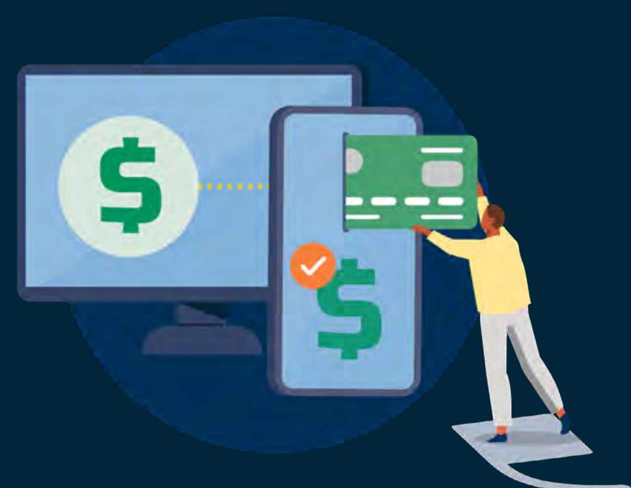
Analytics and Data Tools

Some embedded payments platforms feature advanced reporting and analytics tools. These resources provide real-time insights into transaction trends, customer behavior, and revenue streams. Armed with this data, businesses can make informed decisions, fine-tune strategies, and optimize operations.

The Versatility of Embedded Payments

Embedded payments can be used in almost every industry. In eCommerce, customers can complete purchases seamlessly within apps or websites, streamlining the checkout process and reducing cart abandonment rates. Mobile apps and subscription-based services can leverage embedded payments to facilitate effortless recurring billing for enhanced user convenience.

Although embedded payments are versatile, not all technology or payments partners are the same. Some payments processors offer a one-size-fits-all solution that can keep payment acceptance simple. This type of solution is sometimes a good option for newer businesses that aren't looking to scale. On the opposite end of the spectrum, personalization and customization are employed to turn transactions into a strategic asset. To successfully do this, however, a payments partner must have a deep understanding of the industries they're serving.



The Models of Embedded Payments

What Software Providers Should Know About Payment Models

There are three common ways software providers embed payments into their software, each with pros and cons to consider. There is no right or wrong answer in the land of embedded payments. The referral partnership, payment facilitation, and embedded-payments-as-a-service (EPaaS or, simply, embedded payments) approaches have varying degrees of complexity and risk that, in part, determine the time and resources required to operate them, in addition to affecting the monetary rewards they reap. But which one is “best” for a software provider depends on the goals and resources of the business. Let’s take a closer look at the payment models.

Partner Referral Model

Perhaps the quickest and easiest way to start accepting payments through a software application is the referral partnership approach. It comes with very low risk thanks to a lack of underwriting responsibilities, but this model also features a smaller monetary incentive. Software companies don’t have to provide a large upfront investment, making referrals enticing for new providers. Referral partnerships also are appealing to software providers who want to offer their subscribers the ability to accept payments but may have a different strategic plan that requires resources to be invested in other developments.

> ***But which [model] is “best” for a software provider depends on the goals and resources of the business.***

Software providers should be aware that some of the drawbacks include less control in the merchant onboarding process, as all of this is controlled by the payment processor. This model also doesn’t lend itself to scalability in many business cases. A software company that starts out with a referral partnership can often alter the nature of their arrangement, opting to assume additional responsibilities in exchange for more control and monetary compensation.

> ***PayFacs offer efficient solutions while managing risk and compliance on behalf of their clients.***

Payment Facilitation Model

Traditionally, payment facilitators (PayFacs) take on underwriting requirements and control the merchant onboarding experience. There are many variations of the payment facilitation model, but they all streamline payment processing by aggregating transactions for numerous businesses under a single merchant account. This approach expedites merchant onboarding, making it easier for small businesses to accept payments without extensive setup. PayFacs offer efficient solutions while managing risk and compliance on behalf of their clients.

PayFacs negate the necessity for individual merchants to establish their payment provider accounts. After integrating their technology with provider partners, PayFacs facilitate payments for their merchant clients, known as sub-merchants. Software companies contemplating becoming a payment facilitator must grasp the complexities involved.

When a software company transforms into a PayFac, it oversees underwriting, onboarding, pricing, risk mitigation, and funds settlement for its sub-merchants. PayFacs are accountable to acquiring banks, whose approval depends on risk assessment and compliance policies. Of all the factors to consider, one that should be given significant weight is the level of complexity required for sub-merchant setup. The PayFac model is typically less appealing to software providers when their sub-merchants have more complex situations, such as multiple brick-and-mortar locations with point-of-sale devices and other systems that have to be integrated. However, if a software provider's sub-merchants mostly process card-not-present transactions via eCommerce, the PayFac model may be an appealing and viable option. Although PayFacs maintain direct merchant contracts for payments, the model is fortified by contemporary infrastructure, refined tools, and streamlined workflows. This empowers software providers to offer tailor-made, white-labeled merchant applications, as well as personalized underwriting procedures and smoother onboarding. Compared to the traditional referral model, becoming a PayFac provides a more substantial share of payments revenue and greater insight into underwriting choices.

From the perspective of the software company's customer, the payments journey seamlessly integrates into the provider's software and brand identity. In short, these software providers can onboard merchants and appear as the payment provider to clients. While offering streamlined onboarding and revenue potential, PayFac status demands rigorous compliance, risk management and technical integration. Software providers must weigh benefits against responsibilities before embarking on this transformative journey.

The payments journey is rarely a straight path for any business, including software providers. When business priorities shift or plans unexpectedly change, it may make sense to pull back from a PayFac or EPaaS mode.

Embedded Payments-as-a-Service (EPaaS) and Hybrid PayFacs

Based on their position in the payments journey and the role of payments in their business, certain software providers might not currently be inclined to become full-fledged payment facilitators. They could believe their payment volume doesn't warrant the transition, or they might not view it as strategically essential to their business to take on payments' ownership.

The traditional payment facilitation model is evolving, as innovative providers infuse elements of referral partnerships to forge an optimal balance between the two models. For numerous software enterprises, EPaaS emerges as the ideal fit. When referrals start to fall short of desired benefits and full PayFac engagement appears resource-intensive, the EPaaS model can provide the perfect amount of customization and control, plus quick time to value.

Within the EPaaS framework, the software provider assumes a more proactive role in payment processing, affording more flexibility to tailor the optimal payment experience for their customers. This approach bestows many PayFac benefits upon their business, all while sidestepping the weighty investment and complexities associated with risk management, compliance, and annual audits. Though it seems as if the software provider is handling their payments, the payments partner handles risk, compliance, operational costs, and other intricacies linked to in-house payment management.

The payments journey is rarely a straight path for any business, including software providers. When business priorities shift or plans unexpectedly change, it may make sense to pull back from a PayFac or EPaaS model, reverting to a referral partnership or other hybrid PayFac approach that frees up resources while still offering payment functionalities within the software experience. For those circumstances, some payments providers are true partners that help businesses go up and down the paradigm of commerce options.

Evaluating an Embedded Payments Provider

Navigating the Right Path

The many ways to embed payments allow for greater adaptability by ISVs and other software companies, granting them the latitude to define their role in the customer journey. The extent of control over onboarding and customer service becomes the software provider's prerogative.

> ***Some self-proclaimed "technology-first" providers leave software clients navigating unguided, trial-and-error-driven developer documentation.***

These companies are enhancing front-end processes and interfaces to align with contemporary user expectations. The rise of cloud computing and technological tools, especially APIs, has simplified secure connections to the payments system. This convergence facilitates smoother interactions and streamlines transactions for today's users. As embedded payments have become so entrenched in daily life, there's a lot of potential for software providers to capitalize on transactions. By 2030, it's estimated that 74% of digital consumer payments globally will be conducted via platforms owned by nonfinancial institutions.[7]

However, not all payments providers are on the same plane. When assessing potential partners, delving beyond technology and APIs is paramount. Some self-proclaimed "technology-first" providers leave software clients navigating unguided, trial-and-error-driven developer documentation. This hands-off strategy by a payments provider makes initiation, best practices, and customer onboarding for processing a challenge to discern. Additionally, while payments themselves are sometimes considered industry agnostic, the use cases and required solutions often are not. When payments partners have vertical expertise, they're better equipped to understand the nuances of the industry and provide solutions that commoditized processors simply don't offer.

Out-of-the-Box Solutions

Out-of-the-box payment solutions offer convenience and speed in implementation, reducing development time and costs. Customizability vs. quick integration usually becomes the trade-off.

An out-of-the-box solution doesn't have to be limiting or a self-serve nightmare for developers. When a payments partner has vertical expertise, they can develop intentional solutions that go beyond payments to steer a business toward growth. The platform can still quickly and easily connect with a software provider's customers to implement smart payment solutions.

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Customized Solutions

Customized solutions provide a route to innovation and optimization, personalizing experiences based on industry-specific requirements and use cases. They offer unparalleled flexibility, allowing businesses to adapt functionalities precisely to their needs.

This customization doesn't always require high development efforts and costs, however. While providing unique features, a payments partner already specializing in that industry can drastically reduce the time frame for deployment even in the most complex use cases, helping ERP, ISV, HMS and other software partners create better experiences for their customers.

A Guided Journey with Fortis

To strengthen software companies, enable them to scale, and fortify the relationship between their software and users, Fortis creates personalized payment experiences through a "Platform-to-Platform" model. Dedicated, professional Guides help navigate the full payments capabilities of the Fortis platform. With sophisticated APIs and top-notch security, Fortis helps create a payments ecosystem that unlocks opportunity. The API-first platform is more comprehensive with end-to-end onboarding from electronic signatures to auto configuration, enhanced transaction capabilities, and profound reporting features.

To successfully enable a commerce business, software companies need more than just a payments platform. As a true partner, Fortis creates memorable experiences for software subscribers and develops unique solutions tailored to business objectives — turning payments into a strategic asset.

Industry Knowledge Steers the Payments Strategy

Fortis only operates in industries where dedicated Guides and other team members have deep, vertical expertise. Guides readily share industry knowledge that propel a software company toward growth, encouraging the best possible decisions for both them and their customers.

Fortis Focuses on Six Main Verticals

B2B & ERP

- Sage
- Acumatica
- and more!

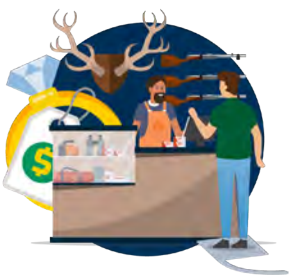
Hospitality

- Lodging
- Food & Beverage
- Wineries

Healthcare

- Medical Practices
- Chiropractic
- Alternative Health
- Electronic Health Software

Specialty Retail



- Consignment
- Outdoor & Recreation
- Pawn

eCommerce

- Retail Stores
- Marketplaces
- eCommerce

Nonprofit

- Large & Small
- Recurring & Online Donations

There is no one-size-fits-all when it comes to payments. This is why Fortis takes the time to equip software providers and businesses with the right tools and capabilities for their industry, tailoring payments into a competitive advantage. While legacy providers and channels struggle with a challenging economic environment, Fortis' focus on servicing software, ERP, and platform providers remains strong as it continues to expand.

Fortis' enterprising growth plans include a newly available API stack with features and capabilities to simplify and streamline integrations, as well as the expansion of its embedded payments suite with new service offerings such as embedded finance, quick invoicing, and enhanced B2B functionalities.

Value Added Services from Fortis

Enabling payments goes beyond developing API and processing transactions. Fortis offers a range of additional services and functionalities that can be curated to create a payments strategy that accelerates success.

Sales + Marketing Assistance

To help increase solution adoption, Fortis provides sales and marketing assistance. Rather than a standard package, Guides customize services to offer the best support for each software provider's unique circumstances. This attention to detail translates into improved sales traction and amplified marketing efforts for software companies.

Business Intelligence

Fortis can analyze data and identify the challenges of payments to help software providers and their subscribers optimize for the future and achieve what's possible for their businesses. Fortis' industry-leading technology and dedicated, professional Guides utilize the captured data to enable scale.

Embedded Finance

As embedded payments transition into mainstream acceptance, numerous software providers are setting their sights on the logical progression: embedded finance. Embedded finance entails incorporating banking and financial services — such as lending — directly into the user experience. This form of service is progressively being integrated into software platforms. By positioning financial offerings at the most pertinent juncture of a business process, software providers cater to the specific needs of platform customers.

Engagement Tools

Communication systems that facilitate text-to-pay options and rewards programs can improve customer satisfaction and boost engagement. In fact, about 90% of text messages are read in the first three minutes of being received.[8] This high engagement makes text messaging a preferred choice, especially among healthcare professionals, for appointment reminders and bill payment notifications.

Elevating Payments to a Strategic Asset

Embedded payments have broadened the commerce landscape. Beyond card acceptance and alternative methods, there's a world of value-added services and invaluable tools. Those who deliver superior experiences and enhanced capabilities are poised to secure a greater share of the growing embedded payments market.

Payments are no longer just a cost center; they are viewed as a cash-flow generator. Aligning with a partner who understands the industries in which software providers work is crucial. Fortis, with its industry expertise, creates personalized payment experiences, turning payments into a strategic asset.

With Fortis, businesses get a true payments partner who is with them for every step of the payments journey. Backed by award-winning APIs and designed to support diverse commerce needs, Fortis is the only payments provider dedicated to transforming payments into a competitive advantage.

Contact Us

If you have inquiries on any of the Fortis offerings.

Fortis Website - Embedded Payments

Additional Resources

- Checklist: Evaluating an Embedded Payments Provider
- Plan Outline: Developing an Embedded Payments Strategy
- Questionnaire: Is Becoming a PayFac the Right Path for My Software?

What To Consider When Evaluating an Embedded Payments Provider

By carefully assessing 11 key aspects, you can select a payments provider that aligns with your software's goals and enhances the overall experience for your subscribers.

Seamless Integration
Ensure the payment provider's technology easily integrates with your software, maintaining a cohesive user experience.

Exceptional Customer Service
No matter what embedded payments model you choose, it's important to have a partner who will provide service and support for every stage of your payments journey.

Customization
Understanding what your industry and business need are vital for customizations that make a strategic impact. Also look for flexibility in personalizing payment solutions to match your software's branding and user interface.

Security Measures
Verify the payment provider follows stringent security protocols, including encryption and compliance with industry standards like PCI DSS. Understand what is and is not your responsibility when it comes to data protection.

API Documentation
Assess the comprehensiveness and clarity of their API documentation for a smooth integration process.

User Experience
Prioritize a user-friendly and intuitive payment experience for your customers, enhancing their satisfaction and loyalty.

User Support
Evaluate the quality of customer support, ensuring prompt assistance in case of technical issues or queries.

Scalability
Confirm that the payment provider's infrastructure can accommodate the growth of your user base without compromising performance.

Transparent Pricing
Understand the provider's pricing model, including transaction fees, subscription costs, and any hidden charges.

Regulatory Compliance
Ensure the provider adheres to relevant financial regulations and can support your software's users across the various geographic regions in which you operate.

Reporting and Analytics
Look for robust reporting and analytics tools that provide insights into transaction data, helping you optimize your software's payment functionality.

10 Steps to Develop a Payments Strategy for Software Providers

By following these steps, you can develop a robust payments strategy that aligns with your software's goals, enhances user experience and contributes to your overall business success.

1. **Define Objectives**
   Identify overarching goals for embedding payments into the software.
2. **Understand User Needs**
   Analyze the user base to understand their payment preferences, demographics, and geographical locations.
3. **Choose Payment Types**
   Determine the types of payments to support based on the target audience and industry.
4. **Evaluate Providers**
   Research and evaluate different payment providers based on integration ease, customization options, support, security, and pricing models.
5. **API Integration**
   Ensure the selected payment provider offers robust APIs for seamless integration.
6. **User Experience**
   Design a payment flow that aligns with the software's interface.
7. **Security Measures**
   Implement stringent security measures, including encryption and compliance with relevant industry regulations.
8. **Testing and QA**
   Thoroughly test the payment functionality within the software.
9. **Pricing Strategy**
   Determine the pricing structure that aligns with the software's value proposition and market positioning.
10. **Launch and Monitor**
    Launch the integrated payment solution and continuously monitor its performance.

Is Becoming a PayFac the Right Path For My Software?

To help determine if the PayFac model is the right option for your software, answer "yes" or "no" to the following questions:

1. Does your client portfolio analysis show an ability to produce a profit?
2. Do you have the infrastructure necessary to enable payment acceptance for your sub-merchants?
3. Will your sub-merchants process a high percentage of card-not-present transactions?
4. Do you have or can you procure the staffing resources required to support new merchant underwriting, manage compliance, handle billing and provide marketing support?
5. Does your client portfolio have any tolerance to processing fee increases? Will their business model tolerate non-customizable pricing?

If you answered "no" to one or more of the questions above, the PayFac approach is probably not the most ideal path for your software company right now. Instead, consider the embedded payments model with a partner who can help you scale as your company grows.

Sources

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