*Where Strategic Payment Partnerships are Formed*

# Payment Aggregation : Is it Right for your Business?

"Businesses once grew by one of two ways: grass roots up, or by acquisition… Today they grow through alliances—all kinds of dangerous alliances. Joint ventures and customer partnerings which, by the way, very few people understand." –Peter F. Drucker

Payments, in particular, can be a tremendous driver of happier clients and increased profits. If your app already provides a payment platform, you've realized the importance of this for your clients. To revamp your business, it again begins with revamping your mentality concerning payment options and realizing exactly why payment processing can be so influential.

Consider that payment processing and reconciliation are two of the most important parts of any business; not being able to handle these two elements is, in the eyes of your clients, unforgivable. It's especially important for recurring or subscription payments. Remember that many companies get sucked into the quicksand mindset of "on to the next development!" By failing to optimize on their payment solutions, they're left with unhappy users that can't realize the full benefits, a devalued solution that hasn't reached its full potential, or even lack of adoption by clients. All of these open the door to competition and non-sticky clients.

Wrong door.

By mastering this integral portion of your business and differentiating your services from the competition, you instead open another door—the one which leads to incremental, substantial revenue from a payments solution.

Most SAAS providers rely on a monthly revenue to run their business, oblivious to the fact that the right payments solution could increase their revenue per client (RPC) by at

least 25% (it's not uncommon to grow your RPC by 50% if a good percentage of your clients utilize your optimized payments solution). Improving payments is a direct pathway towards creating a better solution for your end users. Position yourself as the company that offers solutions to the significant challenges posed against the recurring billing industry. Create a new marketing message around these challenges and how your application users have overcome them. It'll take some initial development work and ongoing messages to educate and engage your users, but you'll reap the benefits of lowered operational costs and higher profit margins.

With satisfied clients, you'll enjoy far greater retention rates; your existing base will contribute to referral generation and testimonials that you can in turn leverage. And the revenue share potential? It's nothing to scoff at. Payment processing fees are generated for every transaction processed; the right payments solution can generate a significant ongoing residual income stream.

Begin by strategically optimizing your solution to best engage your user base. SAAS providers that have opted to use payments solutions fall into one of the following three categories…

## 1 – The Third Party Aggregation Model

In this scenario, you hand off payments to a 3rd party payment aggregator/facilitator, that acts as the master merchant of record and processes transactions on behalf of the multiple smaller businesses belonging to its portfolio. Examples include payments processing services such as Stripe or Square.

**Benefits:**

**>Easy client enrollment** for payment acceptance. The end user completes a fairly simple application and is typically approved (and can begin accepting payments) on the same day. Clients *love* a meet-and-greet that's this smooth and stress-free.

**>Easy integration.** The 3rd party aggregator tends to make their application programming interface (API) user-friendly, which makes life easier for both you and your clients.

**Drawbacks:**

**>Relinquished power.** By enlisting a 3rd party aggregator, you're handing over your clients to another company that you don't otherwise relate to. This can create friction when you won't have influence or insight regarding their potential support needs. Clients won't care; they'll expect you to help whenever they have issues with the system, and telling them to call a 1-800 number or to email *that* company's customer support isn't a satisfactory answer.

**>Untapped revenue.** Depending on your user base and their payment volume, you might be losing thousands of dollars per year (possibly well over a hundred thousand). By dismissing a collaboration with a payments partner, you no longer have the opportunity to impact—or partake in—the development or revenue stream of the process.

Before you jump onboard, compare those pros and cons again. You might discover that quick and easy enrollment and integration don't measure up to the lack of developmental involvement, lost revenue, or eventual customer dissatisfaction.

"Don't tell me where your priorities are. Show me where you spend your money and I'll tell you what they are." –James W. Frick

## 2a – Becoming a Payment Aggregator/Facilitator

If you don't like the option of handing over the responsibilities of payments processing, delving into payment aggregation yourself might seem enticing. Being the aggregator does allow you to control the entire payments process. Naturally, this model comes with its own set of pros and cons.

**Benefits:**

**Fast client enrollment**. By eliminating the middleman, you get to set up sub-merchants quickly, removing a choke point to new client acquisition—if this is a must, then this model is tough to beat. It's as easy as buying a Square reader at Walgreens, connecting to the internet, and creating an account; you can be swiping payments in less than 30

minutes. Clients love that it's so easy to get onboard without paperwork or documentation burdens, so they're that much more likely to utilize the process.

**>Merchant control.** Yup, this makes you the master merchant now. Sub-merchants are under contract with *you.*

**>A straightforward flat-fee structure**. Clients appreciate understandable flat fees, especially without the confusion of interchange tables.

**>Potential revenue**. As a master merchant, you'll be able to earn money from your network and transactional fees, and potentially float on that. Revenue is derived simply from the difference in buy rate from the processing networks and the sell rate charged to the end customers. If, as a payment facilitator, you know that your true overall cost amounts to 2.4% of processed volume and you sell at 2.9%, you margin is .5% of the dollars processed. If you process $10 million per day, that translates to a daily revenue of $50K! (Keyword: if.)

**Drawbacks:**

**>Risk of financial loss**. Any business that chooses to become a payment service provider (PSP) will likely deal with losses resulting from fraud, non-fee payments, clients going out of business, and so forth. Small merchants that do very few transactions a month don't tend to see much profit; doing three $40 transactions per month might generate $4 in revenue, but if acquisition, boarding, and support cost an average of $40 per merchant, the ROI is almost a year just to break even.

**>Customer support burdens.** As the PSP, you'll be on the frontline for payment-related support. When money is on the line, you know people want service, support, and answers ASAP. Do you have what it takes to provide it to them? The more

familiar you are with your client base—and the potential for dollar loss—the more informed your decision could be.

**>Integration demands.** Integration isn't just a matter of networking devices or setting up accounts. You've got to balance complex connections, interfaces, and security controls while managing the procurement and analysis of real-time data.

**>Approval process.** Signing up is easy (as noted above); getting approved is not. This can be burdensome, time-consuming, and expensive; you'll also need additional staff and resources to deal with the complexities.

**>Compliance requirements** with KYC, PCI, and tax reports. Along with conducting potential tax reports, you'll have to understand and adhere to requirements (such as the Know Your Customer) and other industry rules, regulations, and standards including PCI PSS (the Payment Card Industry Data Security Standard).
In a nutshell, the PSP model stacks up numerous obligations alongside the opportunities. The work, expense, compliance requirements, and the ongoing maintenance of being a payment aggregator make this a difficult option for any SAAS business that doesn't already have a **very sizable user base and very deep pockets**.

## 2b-Hybrid Payment Aggregation

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### Understanding the Benefits of Hybrid Payment Aggregation

While there are many benefits of being a true aggregator, there are also significant financial requirements, compliance obligations, and ongoing operational demands.

These prerequisites of true aggregation often weed out the SaaS provider that does not have the financial resources or isn't comfortable with the high level of risk exposure. This especially applies to SaaS startups that count on instant customer onboarding and need to remove friction that may discourage Payfac adoption.

Fortunately there are now SaaS Hybrid Payment Aggregation solutions that offer the many benefits of true aggregation without significant investments of time and money.

Does that mean there's no downside?

### *Of course not. Here's the catch: Your cost basis is much higher*

With true payment aggregation your cost basis may be in the 2.3% range. If you sell at 2.9% and 30 cents you have margin that generates revenue. True aggregation has massive upfront and ongoing expense. This margin can offset the investment and, in many cases, drive significant ROI. That's how Stripe and PayPal make their money.

Using a Hybrid Aggregation solution, you might typically start at 2.9% and 30 cents as your cost.

To make money on the payments side, you need to price above that. You know your application best. To make Hybrid Payment Aggregation a viable option you need to address these questions:

- Will we primarily drive revenue from our subscription fees or is revenue from payments critical?
- If payments revenue is critical, will our user base balk at higher-than-marketplace rates?

Answering these questions will tell you whether or not Hybrid Payment Aggregation is the right fit.

## 3 – The Payment Partnership

The third option is to integrate and offer a payment solution via a payment partnership. You may have done this before, perhaps without realizing it. This time, though, you're promoting and encouraging the adoption of this partnership. By seeking out a Third Party Processor (TPP), with APIs for merchant account onboarding, you choose the middle of the road: it's a hybrid between reselling merchant accounts and acting as a payment facilitator.

**Benefits:**

**>No payments related risk**

**>Much Lower implementation costs. You might easily spend $50k-100 on full blown aggregation**

**>Limited support burdens**. Your partner is at the frontline of these now—so choose an expert.

**>No compliance concerns**. Your partner's job includes this role, saving you the time and resources needed.

**>More development input**.  If your users are asking for a functionality that's not currently offered—i.e. an updater program or email transaction receipts—you can influence your partner to implement these as future enhancements.

**>More potential revenue**. By becoming the actual payment aggregator in the second option, your actual "cost" can be much higher than what you could have initially estimated. Aggregation is considered higher risk and as such your payments base costs are much higher. You might start at a base cost of 2.9% and sell at 3.1% (making the .2%). Now, instead, you've got the potential to gain more money from a shared revenue stream starting at a much lower base cost.

**Drawback:**

**>Slower onboarding.** It's very unlikely that you'll be able to provision accounts as quickly as you would if you were the PSP yourself. It may take four hours or possibly twenty-four hours or more, this won't be the most optimal scenario if instant onboarding is a must.

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**Payment Options**

| 1 – The Third Party Aggregation Model | 2 – Becoming a Payment Aggregator/Facilitator | 3 – The Payment Solution Partnership |
|---|---|---|
| Easy client enrollment<br>Easy integration<br>Relinquished power<br>Untapped revenue | Fast client enrollment<br>Merchant control<br>A straightforward flat-fee structure<br>Potential revenue<br>Risk of financial loss<br>Customer support burdens<br>Integration demands<br>Approval process<br>Compliance requirements | No risk<br>Lower implementation costs<br>Limited support burdens<br>No compliance concerns<br>More developmental input<br>More potential revenue<br>Slower onboarding |

***If you are looking to explore your payment options contact us at sales@AgilePayments.com or call 888.729.4968. Learn how you can grow revenue per customer by 25% or more.***

***Whitepapers available at AgilePayments.com:***

- ***Credit Card Decline Mitigation: Recurring Declines now average 15%+. What are you doing about it?***
- ***Data Hostaging: What you must know about your Payment Gateway Partner***
- ***Payment Gateway Integration as Growth Strategy***

***Grab a copy of "Explode SaaS Revenue by 84%: A Guide to Geometric Growth using Integrated Payment Processing"***