



## Market Insight Report Reprint

# Business drivers for a multi-provider approach to payment processing

August 20 2021

by **Jordan McKee**

Utilizing multiple payment providers (e.g., gateways, processors) is a common approach leveraged by merchants to meet the growth needs of their business. In this report, we offer insight on the prevalence of the multi-provider approach to payment processing, the key drivers fueling it, and the role of payments orchestration in optimizing it.

451 Research

---

**S&P Global**

Market Intelligence

This report, licensed to Very Good Security, developed and as provided by S&P Global Market Intelligence (S&P), was published as part of S&P's syndicated market insight subscription service. It shall be owned in its entirety by S&P. This report is solely intended for use by the recipient and may not be reproduced or re-posted, in whole or in part, by the recipient without express permission from S&P.

## Introduction

Utilizing multiple payment providers (e.g., gateways, processors) is a common approach leveraged by merchants to meet the growth needs of their business. This report draws on our Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2021 to offer insight on the prevalence of the multi-provider approach to payment processing, the key drivers fueling it, and the role of payment orchestration in optimizing it.

### THE 451 TAKE

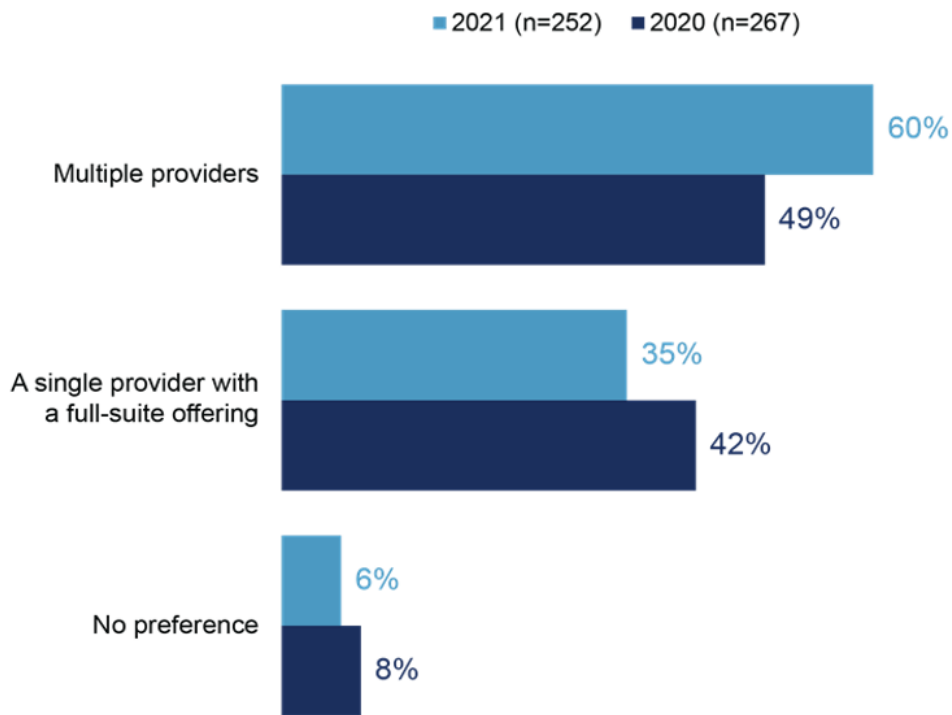
Our research indicates that merchants' preference for utilizing a multi-provider approach to payment processing is increasing. We believe this is in part fueled by payment challenges encountered during the pandemic, such as processor and gateway outages, but more broadly driven by a growing appetite to optimize payment processes. Utilizing multiple payment providers gives merchants more flexibility to craft a payments strategy that meets the specific needs and requirements of their business. The downside is that it adds operational complexity and demands continuous resources to realize the potential advantages. Third-party payment orchestration platforms have emerged in growing number to help minimize the complexity of connecting to multiple payment providers, giving enterprises another option in their quest to optimize their payments strategy.

## Adoption and drivers

While many payment service providers tout the advantages of using a single, unified processing platform, the reality is that the majority of merchants (60%) prefer a multi-provider approach to payment processing. This is increasingly the case, with the percentage of merchants preferring to work with multiple payment providers growing by 11 percentage points between our 2020 and 2021 Voice of the Enterprise: Customer Experience & Commerce, Merchant Studies.

The appetite for working with multiple payment providers increases with merchant size and complexity. For instance, we find that 67% of merchants with \$500m+ in annual revenue prefer a multi-provider strategy, as do 78% of merchants operating in two or more geographic markets. E-commerce-centric merchants also gravitate toward the multi-provider approach, with 72% of those doing half or more of their annual sales volume online preferring it.

**Figure 1: Payment-Processing Strategy Preference**



Q. Thinking about the various components required to process a payment transaction, does your organization prefer to work with multiple providers or a single provider with a full-suite offering?

Base: All respondents (n=252)

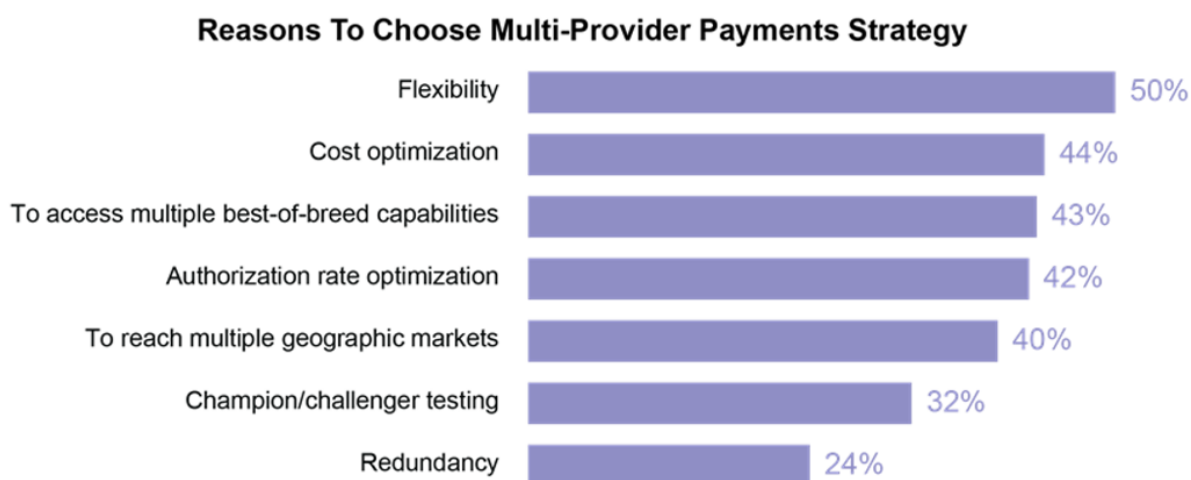
Source: 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2021

The drivers fueling a multi-provider payments strategy are many and vary depending on the business needs and size of the merchant. Common rationale includes:

- **Flexibility.** Many merchants want to avoid the consequences of vendor lock-in. Having the ability to route transaction volume across multiple partners ensures that merchants don't become overly reliant on one processor, especially in the event of a development that may be seen as unfavorable (e.g., outage, acquisition, platform migration).
- **Cost optimization.** Connecting to multiple payment processors enables merchants to pursue a least-cost routing strategy. This involves directing transaction volume to specific processors based on various criteria (e.g., card brand, card type, card issuer) to receive the most favorable processing rates. It is also typical for large merchants to hold back a percentage of their volume from their primary payment processor to use it as bargaining power during pricing negotiations.
- **Accessing multiple best-of-breed capabilities.** Not all payment processors offer the same level of functionality and variety as value-added services. Some merchants may elect to route a percentage of their transaction volume to one processor to utilize a specific capability they offer (e.g., a PIN debit routing engine, a gateway).
- **Authorization rate optimization.** The authorization rate of each individual payment method varies from processor to processor. This is due to a variety of factors, and can include local acquiring connections, direct payment method integrations, and geographic location. Routing transactions to the payment processor proven to have the highest authorization rate based on a specific set of transaction criteria is a sound strategy for increasing topline revenue.

- **Accessing multiple geographic markets.** Payment processor expertise, capabilities and presence varies across geographies. As merchants expand into new markets, some choose to integrate into a new payment processor with proven experience in a given geography to optimize their strategy for the local market.
- **Champion/challenger testing.** It's common for larger and more experienced merchants to continuously put payment processors head to head to optimize their acceptance strategies. This involves the merchant holding back a subset of its volume from the champion (the incumbent processor) and routing it to the challenger (the new processor) to see who produces the most favorable authorization rates.
- **Redundancy.** Processor outages have become a common issue, especially among several of the legacy processors. Consider that 'improved payment processor scalability and resiliency' is the top payments need that merchants say COVID-19 has sparked. Connecting to multiple processors ensures that merchants have failover support in the event of an outage, allowing for business continuity.

**Figure 2: Multi-Provider Payment Strategy Adoption Drivers**



Q. Why does your organization prefer to work with multiple providers to process payment transactions? Please select all that apply

Base: Respondents whose organization prefers to work with multiple payment providers (n=151)

Source: 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2021

## The role of payment orchestration

The tradeoff for utilizing a multi-provider payment-processing approach is that it creates added operational complexity. Simply put, more partners translates to more integrations to maintain, and ultimately more fragmentation in merchants' payment environments. It's no surprise that the top reasons cited by merchants that prefer to work with a single payments provider include simplified integration, increased operational efficiencies, simplified vendor management, and unified reporting.

To realize value from a multi-provider payment-processing strategy, some level of payment orchestration is required. Payment orchestration involves a series of strategies, techniques and tools designed to optimize and streamline payments across multiple partners. As we discussed in a previous report on the topic, it often includes elements such as payments data tokenization and vaulting, transaction routing logic, transaction retry logic, and unified reporting/KPI tracking.

Enterprise-scale merchants often have large payment teams that handle many elements of payment orchestration in-house. We have spoken with large multinationals that have built their own sophisticated payment routing and rules engines, token vaults and even internal payment gateways to simplify processor integrations. While impressive, this necessitates a large resource investment, and often requires the ongoing involvement of in-demand skillsets such as data scientists and engineers.

For merchants unable or unwilling to build payment orchestration capabilities in-house, an alternative exists. There are various platforms now available in the marketplace that enable the outsourcing of many elements of payment orchestration. Core tenants of these third-party platforms often include:

- Single API with prebuilt integrations into various payment gateways, processors and payment methods to help enhance speed-to-market and decrease internal engineering requirements.
- Web-based transaction routing and retry rules engine
- Payment vaulting and tokenization
- Web-based dashboard offering unified reporting with key metrics across payment providers
- Various optimization capabilities (e.g., account updater, network tokenization) made available independent of a single payment provider

Examples of vendors offering payment orchestration platforms include Spreedly, Gr4vy, Modo Payments, Very Good Security, Paydock, Primer, Apexx, and CellPoint Digital. Several payment orchestration platforms have been acquired by payment service providers in recent years, including Zooz (PayU, 2018), optile (Payoneer, 2019) and ProcessOut (Checkout.com, 2020).

Regardless of the preference for an in-house or third-party approach, our 2021 Voice of the Enterprise: Customer Experience & Commerce, Merchant Study made clear that payment orchestration is becoming a growing business priority. More than one-quarter (28%) of the commerce and payments technology decision-makers that responded to the survey said enhancing payment orchestration capabilities is a top payments initiative at their organization this year. Similarly, 29% reported that COVID-19 has increased their need for payment orchestration, rising to 44% of those we classify as digitally driven (executing on a digital transformation strategy and early adopters of new technology).

## CONTACTS

### **The Americas**

+1 877 863 1306

[market.intelligence@spglobal.com](mailto:market.intelligence@spglobal.com)

### **Europe, Middle East & Africa**

+44 20 7176 1234

[market.intelligence@spglobal.com](mailto:market.intelligence@spglobal.com)

### **Asia-Pacific**

+852 2533 3565

[market.intelligence@spglobal.com](mailto:market.intelligence@spglobal.com)

[www.spglobal.com/marketintelligence](http://www.spglobal.com/marketintelligence)

Copyright © 2021 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not endorse companies, technologies, products, services, or solutions.

S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its websites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge) and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).