Market Insight Report Reprint

Business drivers for a multi-provider approach to payment processing

August 20 2021

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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

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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

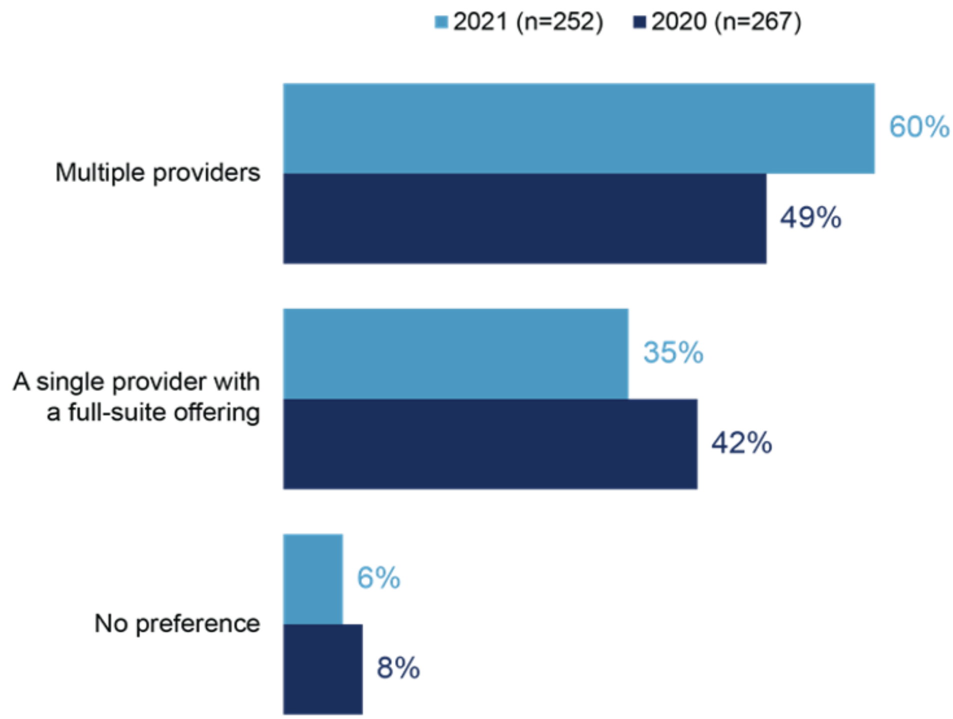
Our research indicates that merchants' preference for utilizing a multi-provider approach to payment processing is increasing. We believe this is in part fueled by payment challenges encountered during the pandemic, such as processor and gateway outages, but more broadly driven by a growing appetite 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



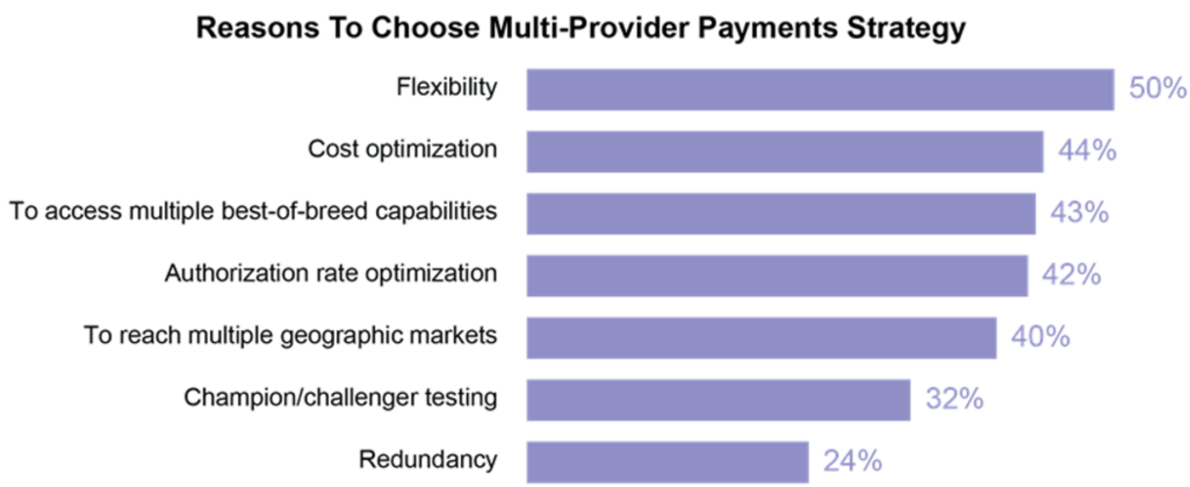
Source: 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2021

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).

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