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THE STRAWHECKER GROUP®

# ISV Mindset Case Study

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## The ISV Mindset Study

Elegant, integrated software is a driving characteristic of the payments industry. It's clear that a layer of technology powers the business operations of merchants. The model going forward is technology-enabled, software-led distribution that provides integrated payments with more flexibility and less friction. As this trend exponentiates throughout the market, ISVs, or integrated software vendors, are left to determine the best path forward, without much guidance, knowledge, or preparation. Due to this, it is more important than ever, for payment providers/acquirers to understand the mindset and viewpoints of these ISVs in order to successfully integrate payment technology and experiences into their platforms. Because of this, [The Strawhecker Group](#) conducted a review and investigative case study to understand the ISV mindset when selecting an integrated payment provider in order to take a look at the important factors at play during the decision making process.

## About The Strawhecker Group (TSG)

### About The Strawhecker Group (TSG)

The Strawhecker Group is a fast-growing analytics and consulting firm focused on the electronic payments industry. The company serves the entire payments ecosystem, from fintech startups to Fortune 500 companies. TSG provides its clients with advisory services, research and analytics to help them plan and execute their strategic initiatives, using its wide breadth of operational expertise. One focus area of expertise is information technology – TSG team members have over a century of combined years of expertise in information technology within the payments industry, including holding various C-level positions. TSG is based in Omaha, a recognized payments industry hub, and is an established leader in this high-growth, ever-evolving space.

1,000+

CLIENTS ADVISED



40+

OF THE TOP 50  
ACQUIRERS SERVED



25+ Years

AVERAGE ASSOCIATE  
EXPERIENCE



3.7+ Million

U.S. MERCHANTS IN  
TSG'S ANALYTICS PLATFORM



30+

ACQUISITIONS/  
INVESTMENT TRANS



Payments Experts. Powerful Data.

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Management Consulting | Analytics |  
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## Payments Ecosystem

### Overview

Payment for goods and services has dramatically evolved since the days of bartering. Particularly, in the past few years, technology has played and continues to play a major role in accelerating this pace of change.

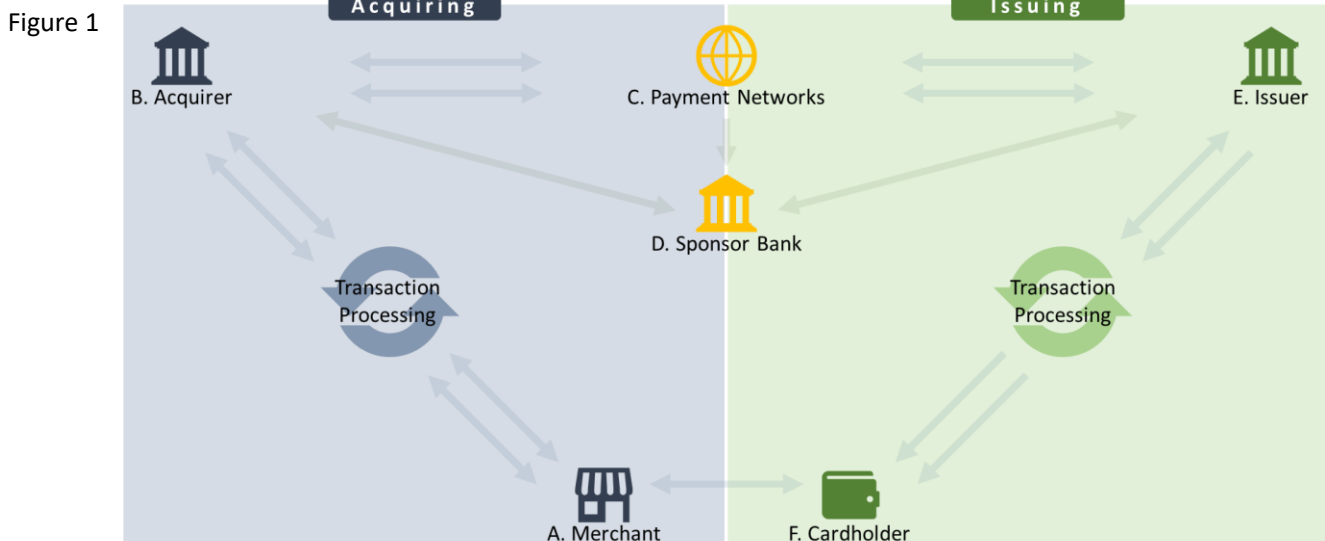
There are two sides to a credit/debit card transaction – acquiring and issuing. Acquiring focuses on the merchant acceptance side and issuing focuses on the cardholder side of the transaction. There are intermediary participants, and these entities facilitate the interaction between the acquiring and issuing sides. For this paper, we will focus only on the acquiring side of the transaction. Acquiring participants include two groups: merchants and acquirers.

The **merchant** is the business, retailer, or any other person, firm, or corporation selling goods or services to consumers, and according to a merchant agreement, agrees to accept credit cards, debit cards, or both, when properly presented. The merchant has a processing agreement with an acquirer, thereby, permitting the merchant to submit payment to the acquirer. The processing agreement is the written contract between the merchant and acquirer that details their respective rights, responsibilities, and warranties.

The **acquirer** is a financial institution or other entity that enrolls a merchant for the purpose of presenting transactions to the payment networks, and funds merchants for transactions presented. If the acquirer is not a bank, the acquirer must partner with a bank to access the payment networks.

### Payment Lifecycle

The life of a transaction consists of two-parts: authorization and settlement. Authorization involves submitting a transaction for approval from the issuer. This process verifies that a credit card has sufficient funds to cover the transaction amount. An approval response code is sent to the merchant from the issuer verifying availability of credit or funds on the cardholder's account. Authorized credit card sales must be settled in order for a merchant to receive credit for their sales and a cardholder's account to be debited/credited. Settlement involves transferring of funds. Clearing includes the transfer of data between issuer and acquirer. Settlement is the process of transferring funds for sales and credits between acquirer and issuer, including the final debiting of a cardholder's account and crediting a merchant's account. *Figure 1* details the transaction lifecycle.



Sources: TSG Institutional Knowledge and Analysis

## Payments Ecosystem

### Card Present & Card Not Present Transactions

There are two general types of transactions – card present and card not present. **Card present transactions** involve a cardholder physically presenting a card to complete a transaction. These transactions typically take place at a physical location between a merchant and cardholder. There are other transactions, like using a mobile wallet, which are like card present transactions; however, rather than swiping or inserting a card, the card is digitally stored within a mobile wallet and used via near field communication (NFC). **Card not present transactions** do not involve using a physical card and the card details may be keyed in, for example. These transactions typically take place via eCommerce, mobile commerce (mCommerce) or voice commerce. There are also instances when a card may be keyed in at a physical store. There are many similarities between card present and card not present transactions like the participants involved – acquirer, processor, payment networks, issuer, for example. However, there are also key differentiators between the two, as the players involved and risk of fraud differ.

Figure 2

### Card Present Authorization

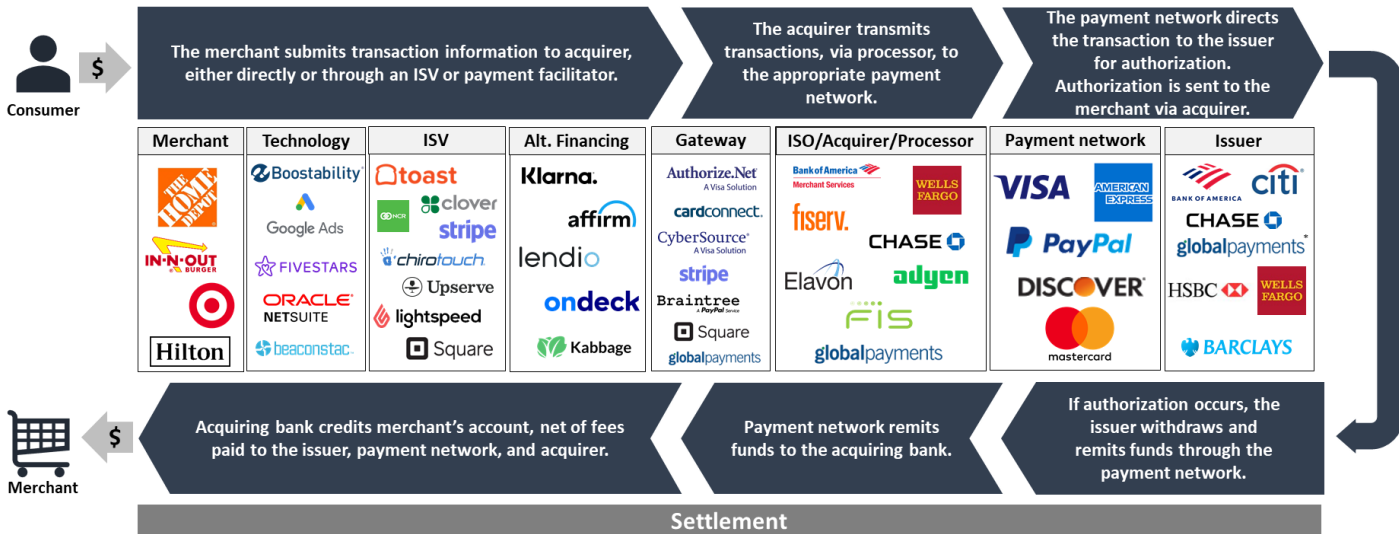
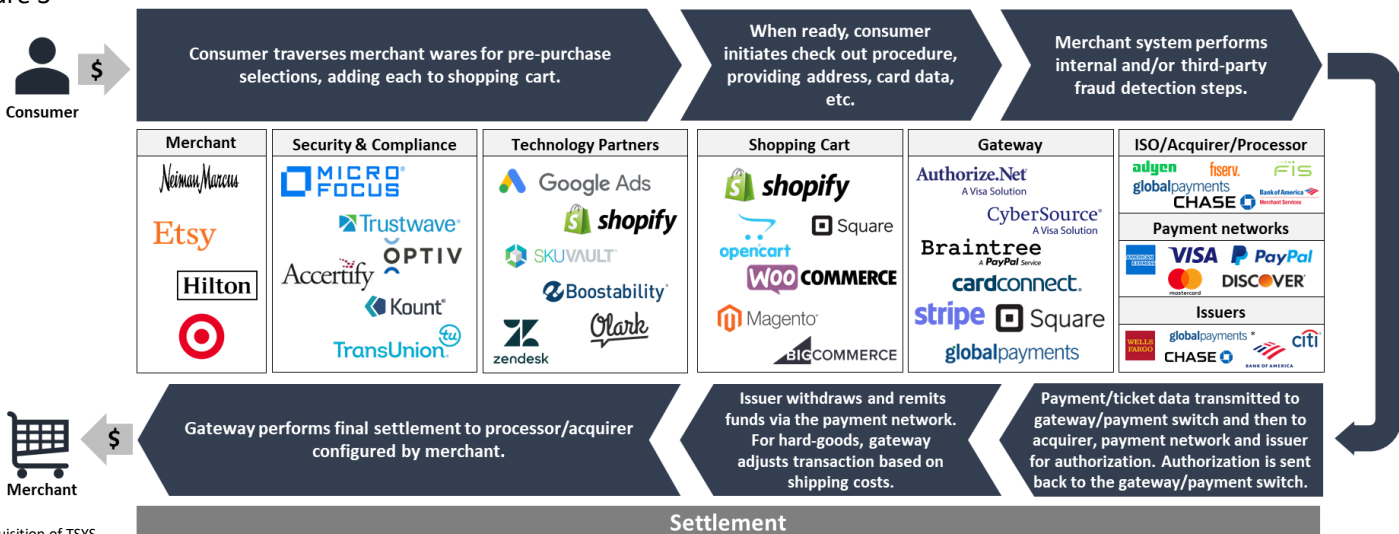


Figure 3

### Card Not Present Authorization



\*Via acquisition of TSYS

## Payments Ecosystem

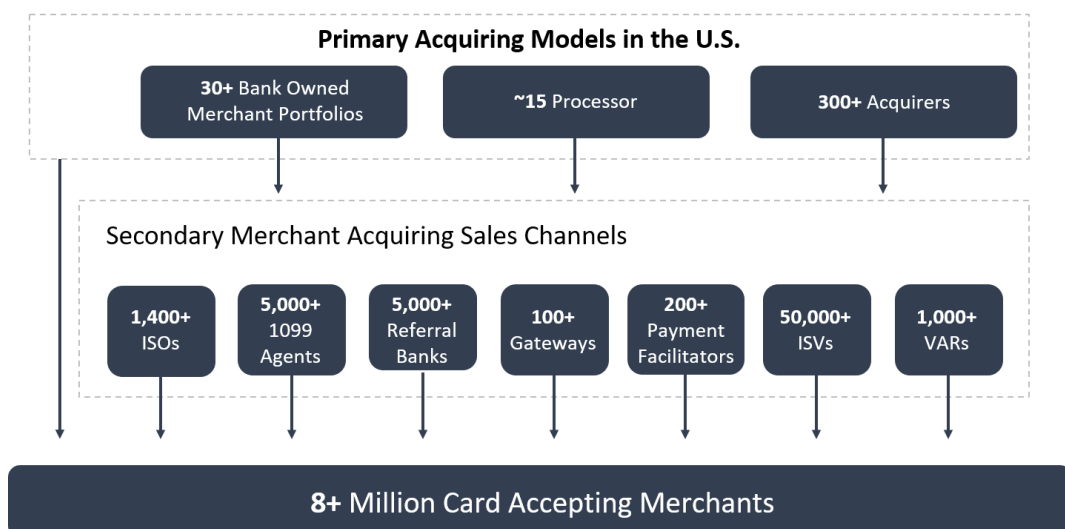
### Additional Participants

There are numerous additional participants in the payments ecosystem, described below. These entities supplement the traditional roles through value-added services, software, and hardware. Core and additional participants fulfill many roles within the ecosystem, thereby, not limiting them to one specific role. This is a major theme within the industry and will continue to be.

- **Processor:** A data processing company that contracts with ISOs to provide communication and processing systems that connect with the payment network for authorization, clearing, and settlement services. A processor may be an acquirer, and in some cases, a processor may serve both the acquiring and issuing sides.
- **Independent Sales Organization (ISO):** An organization whose primary mission is a merchant sales function and may provide some limited additional functions such as back-office customer services. Large ISOs can also serve as the acquirer and partner with a bank and processor to access the card networks.
- **Payment Gateway:** An intelligent application that routes payments transactions, often from shopping carts/terminals to processors. An internet-based service that transports payment information from a computer terminal or website to a payment processor, where it can be verified and processed.
- **Integrated Software Vendor (ISV):** Company that provides software solutions that aid in managing different functions of a business operation. Generally, ISVs specialize their solution to a specific merchant vertical often times at a granular level.
- **Value Added Reseller (VAR):** Company that sells third-party products/services and adds its own value such as service, installation, etc.
- **Payment Facilitator:** Company that provides merchants the ability to accept electronic payments more quickly than working with an acquirer. A payment facilitator holds a master merchant agreement with an acquirer and boards merchants under their master agreement.
- **Point of Sale (POS):** Electronic equipment for pricing and recording transactions, but not necessarily incorporating functions for electronic funds transfer.
- **1099 Agent:** Independent (non-W2) sales agents of merchant processing.
- **Customer Engagement Technologies:** Software or technology that creates a relationship with a customer base to drive loyalty, awareness, and adoption.
- **Alternative Financing:** Refers to non-bank financing methods which provide typically easier access to capital.

These participants all play a role in selling or facilitating card acceptance to the current 8+ million card accepting merchants.

Figure 4



## Importance of Payments for ISVs

### ISVs

ISVs often touch, see, and manage billions of dollars flowing through their system. They provide software solutions that aid in managing different functions of business operations. Generally, ISVs specialize their solution to a specific merchant vertical often at a granular level. If payment acceptance is not already part of a software solution, adding a payments feature is a logical extension of most industry-focused software solutions. For the ISV, they can meet a broader set of merchants' needs by offering payment processing. Merchants are more ingrained into and loyal to their software solution, resulting in a "stickier" merchant relationship, which is one of many benefits to bottom-line revenue growth.

This also creates a one to many relationship for the acquirer. With one or two partnerships, an acquirer may be able to dominate a particular market or industry in which merchants all use one centralized software provider. ISVs provide widespread distribution and industry specific functionality for acquirers, and in return ISVs are able to provide a more holistic solution to their end users (merchants) by integrating payment processing into their platforms. As a result of these partnerships, ISVs may also receive a referral fee or a percentage of the payment volume they funnel to the acquirer. This is often referred to as the **Monetization of Payments**, as ISVs are receiving meaningful revenue numbers by routing their payment volume to one or many payment processing partners.

## Synergies Between ISVs and Acquirers

### Non-Economic Elements Are Key to ISV Relationships

ISVs rank customer service as the most important factor in selecting their preferred acquirer. The economic commission split is an important factor for ISVs, but merchant referrals and product solutions are also prominent factors.

**In Most Instances, Acquirers Pay ISVs Residual Payments or Revenue Splits** tied to the net revenue earned by acquirers. Industry competition is putting pressure on the economic split between acquirers and their ISV partners.

#### Increasing Reliance on Software

More merchants are expected to use business-management software, especially as cloud-based systems develop and bring costs down.

#### Acquirer – Sales Channel Benefits

An ISV establishes a payment acceptance account with an acquirer and then uses this account to accept payments on behalf of its clients, who are referred to as sub-merchants.

**Some Industry Verticals Generate Higher Splits for ISVs**, as acquirers have had to compete more aggressively for ISV distribution partners in those industry verticals.

#### Models For Monetization Vary

ISVs can monetize payments in many ways. Some ISVs take on liability or support functions in order to maximize their split of the payment processing revenue.

**Payment Gateway and Omni-Channel Capabilities** can be key product differentiators for merchant processors vying for ISVs.

**The ISV Phenomenon Exploded** to more than fifty thousand companies across the U.S. and hundreds of companies within a single vertical.

#### A Conduit to Merchants

A valuable customer-acquisition channel for payments companies, one with many benefits and a few challenges.

#### Merchant Stickiness

Merchants acquired via ISVs tend to stay with the provider of their business-management software longer in comparison to how often they switch merchant-services providers.

## Importance of Payments for ISVs

**TSG estimates the number of card accepting merchants in the U.S. utilizing an ISV to be ~5,000,000. This represents ~84% of all U.S. card accepting merchants.**

However, each vertical in most cases has a different penetration rate. While some verticals see higher penetration, others have not. TSG has provided a demonstration of this example by ISV penetration rates for the following verticals below.

Figure 5	Metric	Child Care	Field Services	Health & Beauty	Nonprofit
	<b>Number of Merchants Served by ISVs</b>	~17,000	~370,000	~324,000	~183,000
	<b>Total Number of Card-Accepting Merchants</b>	~23,000	~490,000	~360,000	~203,000
	<b>Penetration</b>	<b>~73%</b>	<b>~77%</b>	<b>~90%</b>	<b>~90%</b>

Each vertical and each ISV also commands varying commission splits. Generally speaking, ISVs have commanded a larger split with their acquiring partner over the past few years, but a multitude of factors affect revenue splits such as; the size of the ISV, the vertical, the amount of volume processed, the monetization model selected by the ISV, and many more. Below are a few examples of commission splits by vertical.

Figure 6

### 2017 / 2018 Economics By Vertical



Sources: TSG Institutional Knowledge and Analysis, Piper Jaffrey



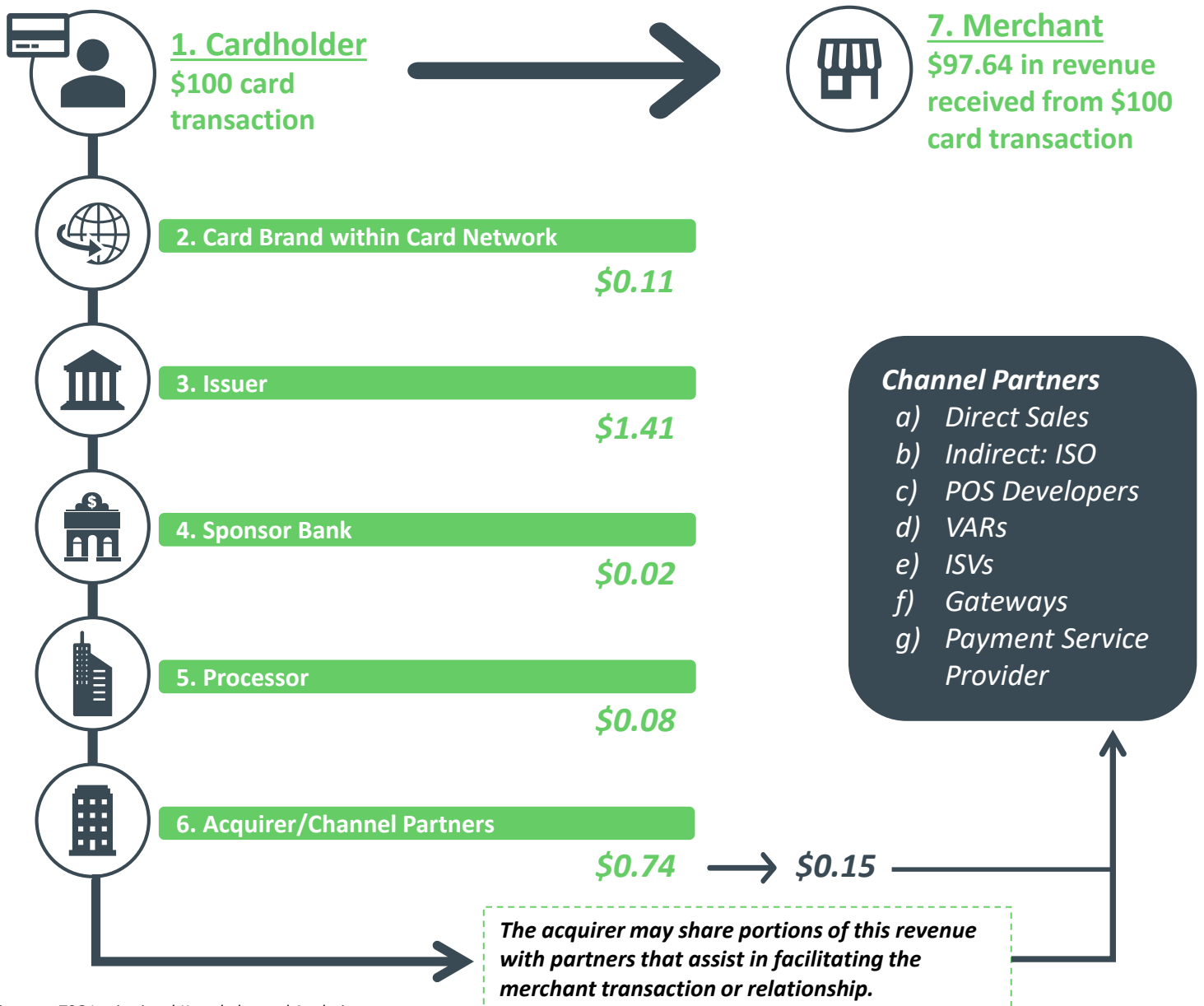
## Revenue Allocation

### Economics of a Transaction

There are many entities that facilitate any given transaction, but each entity does not perform these services for free. Each entity is paid a portion of every transaction that occurs. Below, *Figure 7* is an example of how revenue may be shared among the various participants involved in authorizing and settling a \$100 transaction. Companies may fulfill multiple roles throughout the transaction flow, thereby, receiving multiple revenue streams.

**NOTE:** This example is for illustrative purposes only. The amounts paid to each part of the ecosystem can vary greatly dependent upon many variables including size, industry, location, pricing model, and vintage.

Figure 7



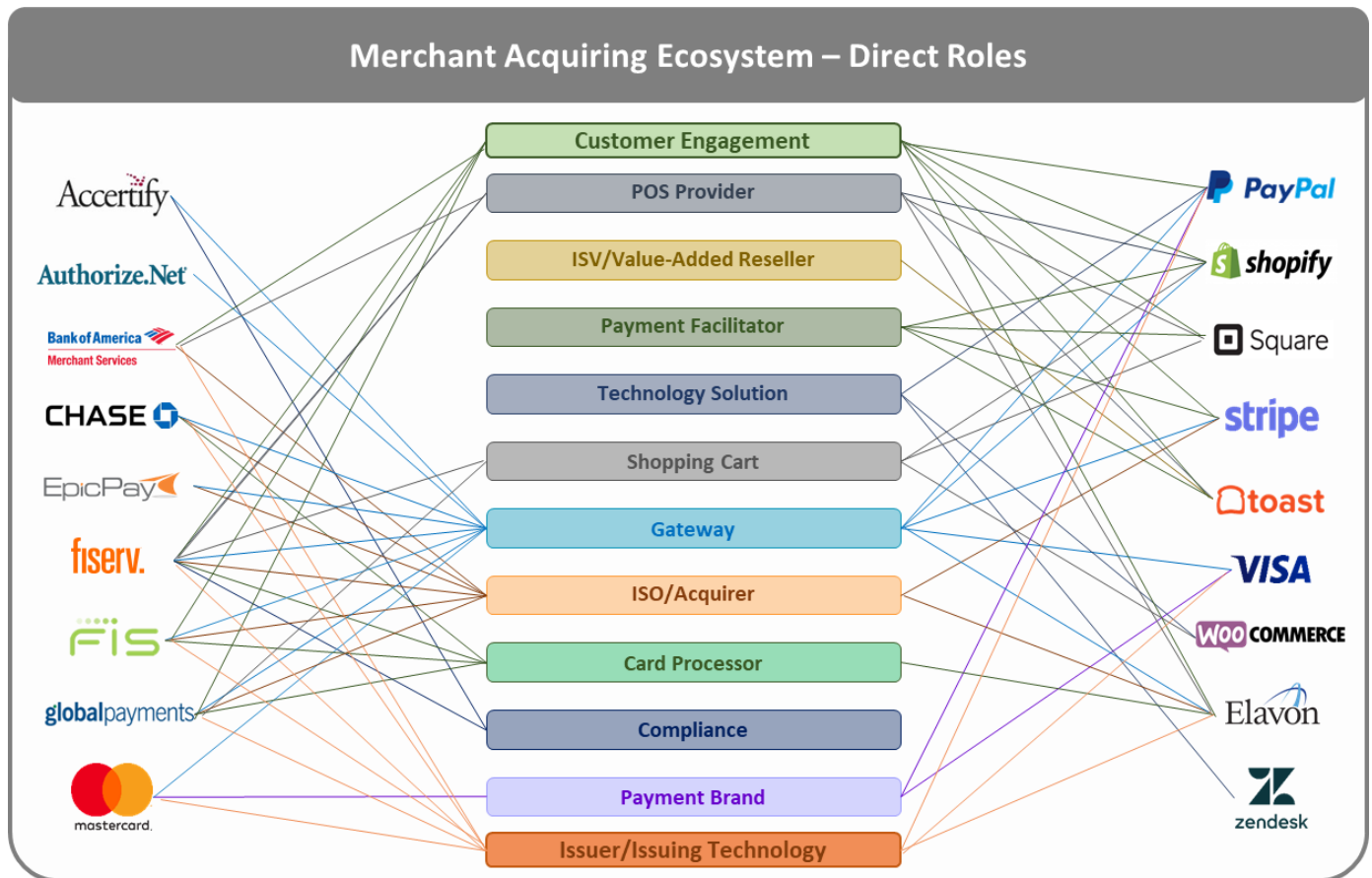
Sources: TSG Institutional Knowledge and Analysis

## Emerging Trends

### Blurred Lines

Within the merchant acquiring ecosystem, a single company may fulfill numerous direct roles with merchants, as well as partner with, or provide services to companies to position themselves to offer payment solutions to merchants. To show the **blurring of the lines within the payments ecosystem**, below is a sample of companies and examples of their many different direct roles. This blurring of lines embodies the transition the ecosystem is making, as established payment players engage with software focused technology firms. This culmination of payments and software represents the genesis behind the future of connected and seamless payment ecosystems.

Figure 8



## Software has Accelerated the Industry's Metamorphosis

The effect of new technology players has created an ecosystem where overlapping relationships have resulted in a more complex marketplace. The combined efficiencies have supported sustained growth in the market. Merchants are utilizing these solutions to provide consumers with increased access and convenience. Merchants are focused on seamless presentation of products and services to increase sales. Consumers are adapting and pushing growth in eCommerce business due to shopping convenience, minimal shipping time, and product availability.

Software is quickly becoming the driving force behind commerce. It is going to determine who merchants work with, how they run their businesses, and where they find service providers.

**Most emerging fintech companies in the payments and transactions space have solutions that piggyback on the traditional payments and transaction networks.**

They focus on enhancing customer experience, increasing convenience and streamlining the process of using bank and card payment networks with platforms that can be used by companies to leverage digital wallet capabilities and POS technology solutions to make payments and authentication easier and safer.

## Payments as a Strategy

As the amalgamation of software and payments continues, it is important for software firms to understand that their payments partner may become an essential arm of their business. As such, management teams must make the correct decision when it comes to their payment provider. ISVs should be on the lookout for firms that provide the following:

- ✓ Stellar Customer Support
- ✓ Differentiation
- ✓ Turn-key Solutions
- ✓ Meaningful Revenue
- ✓ Reliable Infrastructure/Integrations
- ✓ Functionality Clients Need
- ✓ Seamless Payment Experience
- ✓ Consolidated Channel Operation

## How ISVs Rank Factors Used in Choosing a Preferred Payment Processing Partner

Figure 9



**37%** of ISVs rank customer service as the number one factor when choosing a processing partner.

**Support** consistently ranks among the top factors that contribute to an ISV's decision in choosing a payments partner. This is largely due to the fact that many ISVs have attempted to implement a payments strategy and have been dissatisfied with the results, or may have failed to implement the strategy all together. Any payment processor, gateway, or adjacent payment technology can connect an ISV to the payment networks to facilitate the processing of transactions. A successful payment partner, however, will guide the ISV through implementation and maintain communication and support throughout the lifecycle of the relationship. Many ISVs, who have no prior experience with payments, are left to develop their strategy alone. When it comes to a successful payments monetization scheme, a good payments partner will help ISVs develop a strategic plan to assure a successful implementation that will be supported well into the future.

## How to Develop a Payments Strategy:



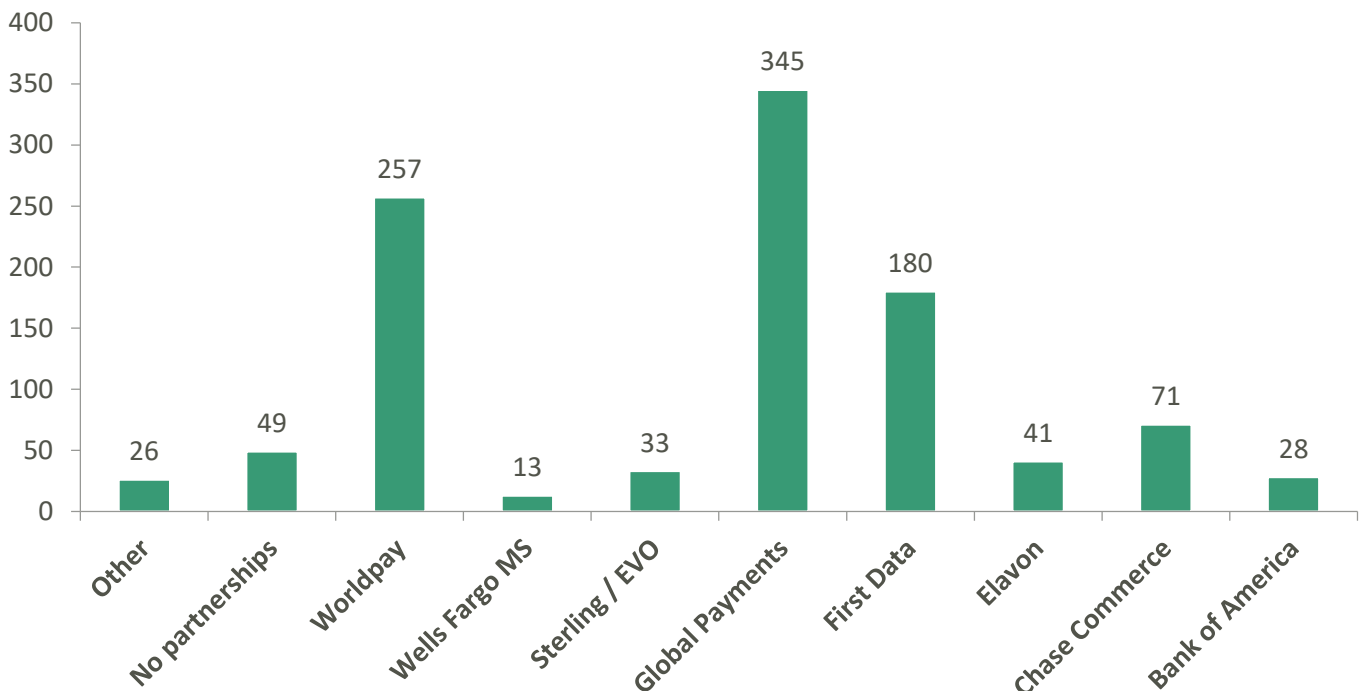
Sources: TSG Institutional Knowledge and Analysis

## The Model-Based Approach

Software companies are transforming their payment volume into meaningful revenue figures, resulting in higher profitability and higher valuations. Traditionally, ISVs have accomplished payment monetization through four generalized models (Referral, Payment Facilitation, Retail ISO, and Wholesale ISO). Each model varies in complexity and typically carries various levels of risks and rewards. As ISVs take on more risk and operational control, they command higher revenue splits with the processor, thus increasing fiscal upside. In most instances, processors pay ISVs residual payments or revenue splits variably tied to the net revenue earned by processors off the payment volume generated by the ISV's client/user. The vast majority of ISVs receive some form of economic-commission split as a form of compensation from its payment processing partners. The varying levels of risk and operational support and resources an ISV is willing to dedicate to such a partnership generally dictates the split an ISV will receive.

While this may seem simple, traditional payment monetization models can often be tricky to categorize and may vary widely. It is essential for management at software companies to understand the process in assessing which payment monetization model works best for their business, as some payment monetization models require substantial investment of money and most importantly internal resources. There are many companies that exist in the market that will push one model over another, despite logistical limitations of the ISV. This situation is ultimately what leads to poor support and failed implementations. Successful ISVs will not select a payment partner based on a single model, but instead on support and ancillary offerings that will provide custom and integrated workflows that merchants demand.

Figure 10 **ISV Survey: Which Merchant Payment Processor Do You Most Often Utilize For Your Merchants**



Sources: TSG Institutional Knowledge and Analysis, Piper Jaffrey

## Beyond the Model

Top-tier payment providers will sell their services in a consultative manner, based on what is best for the ISV. The sale should not be based solely on model or price, but instead on a culmination of support, price, model, additional offerings to drive adoption, and new functionality that will benefit the ISV's clients. Payment partners who are committed to building long-term success should help ISVs build a sustainable and scalable payment strategy. The best payment strategy has to be more than authorizations and approval codes; it's about the experience, ecosystem, fluency, communication, engagement, satisfaction, and the ability to drive commerce. Within each partnership or model the ISV and the payment provider must jointly decide who manages the various aspects of the payments strategy.



### Sales Process

Sales is the point at which every new client relationship begins, and sales cultures within ISVs differ from organization to organization. Selling payments as an ISV can require further expertise in positioning the features and benefits to prospective clients.

Merchants will need to understand ongoing costs, authorization and settlement processes, timing of funds deposits, their support model, technology requirements, and most importantly, how an ISV's value proposition complements their business objectives and goals. Some ISVs understand that payments are not their core competency and wish to outsource this component of the conversation to a trusted partner.

Other ISVs look to control the sales experience of their product from the onset and want their sales teams to control the entire process, including payments. Finally, some ISVs like to offer a shared sales experience to their prospective customers. **This model allows the ISV to maintain visibility and control of the sales process while still utilizing outside resources and situational expertise.**



### Risk Management/Underwriting

When a company becomes involved in payment processing, there are certain fiscal liabilities. For example, for an ISO, any time a merchant is unable to fulfill a payment-related debt, their payment provider is liable for these financial losses. Therefore, the need to underwrite, or have a clear picture of their clients' financial health, is critical in gaining initial insight and then managing this ongoing risk.

Processors apply a sophisticated formula that takes into account volume processed, size of purchases, whether a card is present or not during a transaction, the likelihood of returns, and the merchant's industry to assess risk factors. Regulatory risk also exists in the form of data security, loss exposure, and violation of other complex payment card brand rules and regulations. **In summary, the entity that holds the greatest risk has the highest potential upside in a given business transaction.**

## Beyond the Model



### Onboarding

Once the sale is complete, the merchant must begin a process to implement payments within the platform. Collection of key account information is required on behalf of the client to satisfy fund transmission, tax-reporting requirements, full account underwriting, and compliance checks. Collection of this information can take place a number of ways. **Acquirers are working to move from more of a traditional lengthy paper process to a streamlined electronic or web-based collection method. In other cases, the registration process for creating a merchant account is embedded within the ISV's software application, becoming one holistic process.**



### Technology & Delivery

When building out or enhancing a payment interface, one of the biggest challenges facing ISVs is staying current on payment gateway features and functionality. ISVs that choose to remain processor agnostic, will commonly utilize more “standard” gateways. As a result, these ISVs may receive little to no direction and therefore have to embark on research and development of their own payment roadmap. A payment strategy of this type may also generate lower revenues.

Identifying best practices for protecting sensitive cardholder data, adding emerging payment methods like Apple Pay, and adapting industry specific complex payment features are left solely up to the ISV. Other models explore a shared approach to payment product development that is more tailored to the vertical the ISV platform serves. **In the world of software development, it's important to understand the key objectives and business case of adding payment technology.**



### Support

Every organization attempts to develop the best product suite. However, clients will always have problems and questions. Beyond the core functionality of an ISV's software, payments can provide unique support challenges. Billing questions around fees, allocation of fund deposits, and remittance challenges are potentially regular support discussions to work through with merchants. Many ISVs work hard to develop their brand and create a consistent user experience within their platform. **To have a large component of their product outsourced to another vendor doesn't feel right. They prefer to manage all inbound and outbound communication related to the support experience. Other ISVs rely heavily on their payment provider to manage their own client relationships and end up having to collaboratively solve problems with their processing partner or an unknown third party vendor.**

## Future of Payments

**76%** of non-acquiring ISVs receive a commission or residual split from their integrated partner.

**The Future of Payments Is Integrated.** The payments landscape does not stand still, and as such merchants will always require turnkey solutions that allow them to keep up with the shifting needs of their customers. For developers who have the foresight to identify these behavioral shifts, and the technological expertise to capitalize on them, integrated payments present an attractive proposition. However, ultimately, ISVs need to make it as easy as possible for their merchant clients to adopt new payment technologies, and in order to do so, they must partner with a payment provider that is well positioned and has the experience to facilitate the process. Integration is often the most difficult part of implementing a new payments strategy. ISVs should never settle for siloed systems, especially when it comes to payment monetization.

Figure 11

### Sales Channel Growth Rate

2019



**The majority of future growth in the U.S. Payments market is expected to be generated by software-led distribution and eCommerce sales channels.**

Technology is driving the current market state from this “stand-alone” nature to a more holistic and embedded experience. As merchants adapt more vertical software solutions to run their business, they are looking to identify additional ways to not only gain stronger efficiencies, but tighter control over internal processes and enhance their customer’s experience from checkout experience, payment remittance and everything in-between. ISVs taking an agnostic approach to payments do not direct a merchant’s buying decision and may create more work for their clients while missing out on additional revenue opportunities. Finger pointing between multiple parties in a fragmented payment industry causes headaches and support issues for merchants that do not have clear direction. By standardizing and controlling the payment environment within the application, clients will have a much more satisfying user experience and end result.



## Differentiation

In addition to the operational items to consider, ISVs must also evaluate the product offering and functionality offered by the payment partner. Leading providers will offer support and functionality for current and future trends. Winning payment providers will offer ISVs the tools and functionality to create a memorable and convenient experience for their clients. Integrating these features into a cohesive system provides tremendous value for both the ISV and their clients.

### Omni-Channel Support – Frictionless & Convenient

<b>In-Store</b>	<b>Streamlined</b>
Kiosk	Recurring Payments
Mobile	NFC (Tap-n-go)
Watch	QR Code
<b>Online</b>	<b>Memorable &amp; Unique</b>
Portal	Text/Call Reminders
One-Click Payment	Smart-Scheduling
Voice & IVR	Customer Purchase History
Text-to-Pay	Customer Notes
In-App	Geofence Marketing
<b>Analytics</b>	<b>Automation</b>
Customer	Operations
Competitors	Funding
Employees	Feedback
Reviews	Onboarding
<b>Marketing</b>	<b>Additional Functionality</b>
Gift & Loyalty	International Support
Social Media	Alternative Financing Options
Exclusive Offers	Alternative Payment Method Support

Sources: TSG Institutional Knowledge and Analysis



# ISV Mindset Case Study

Elegant, integrated software is a driving characteristic of the payments industry. It's clear that a layer of technology powers the business operations of merchants. The model going forward is technology-enabled, software-led distribution that provides integrated payments with more flexibility and less friction. As this trend exponentiates throughout the market, ISVs, or integrated software vendors, are left to determine the best path forward, without much guidance, knowledge, or preparation. Due to this, it is more important than ever, for payment providers/acquirers to understand the mindset and viewpoints of these ISVs in order to successfully integrate payment technology and experiences into their platforms.

Because of this, **The Strawhecker Group (TSG) conducted a review and investigative case study to understand the ISV mindset when selecting an integrated payment provider in order to take a look at the important factors at play during the decision-making process.** Through these interviews, TSG was able to obtain insight and understanding into the sales process of a healthcare ISV who was looking to implement an integrated payments monetization model for their clients.

## ISV Overview

The data presented in this case study was collected from an actual healthcare ISV. The name of the ISV and some of the background information has been changed in order to protect the confidentiality of the ISV and its clients. Permission was obtained to utilize the name and information of their current payment provider.



### Happy Health Software

**The healthcare industry** is one that is extremely complicated, with various types of businesses, regulations, and services. Many ISVs have taken on the challenge of creating software products to streamline the operation of healthcare businesses; and much like any business, healthcare professionals collect payments and require unique tools and functionality to do so. As a result of this, it is imperative that ISVs serving the healthcare space are able to offer these payment and ancillary solutions to better serve their clients – the healthcare businesses.

This case study will follow and highlight the decision-making and sales process of an actual healthcare ISV, Happy Health Software. Happy Health Software attempted to implement an integrated payments strategy more than once, but heavy developer workload and technical issues caused major disruptions to the business. After implementation of the solution, Happy Health was only able to monetize payments for a few hundred clients resulting in less than \$10,000/month in generated revenue. Additionally, the current solution offered close to nothing in terms of additional functionality and support. The system was described as overly simple and lacked the depth of reporting needed for business decisions. Extremely disappointed and dissatisfied with the implementation and delivery, management began a search for a better solution that would provide further functionality, implementation and maintenance support, and additional tools to help grow the business.

Being in the healthcare space, there are certain functionalities, features, and system requirements that Happy Health needs from their payment partner and the current setup has simply not delivered, which led Happy Health to seeking out a new payment partner.



## Happy Health's Top Requirements for Integrated Payments

### PCI Compliance

Happy Health required a solution that is PCI Compliant, as management did not want to manage or expose themselves to unnecessary risk.

### Integrated Solution

Management wanted a centralized and integrated solution that did not require their clients to leave the software to manage payments.

### Developer Focus/Support

Happy Health needed sizable support as they had limited resources to dedicate to the initiative, so a simple integration and seamless setup was ideal.

### EMV

Happy Health required EMV solutions for card present support to help mitigate chargebacks and fraud.

### Flexible Billing Solutions

Many users collect payment for their services through a recurring payment plan, so support for recurring billing and invoicing was a must have.

### Training

Happy Health's sales/support representatives had very little knowledge/exposure to the payments world, so education and training were also valued.

For years, many of Happy Health's clients had requested integrated payments to make things easier for collection and reconciliation. In the beginning, Happy Health's software could track payments and customer account history, but because no integrated solution was offered at the time Happy Health's clients had operated with siloed systems. With ambition to fulfill their customers' needs, the company rushed into partnerships with payment providers that offered canned solutions and close to no support for implementation and maintenance. While integrating one such product into the software, Happy Health's team came across multiple issues, and found no assistance from their payment provider. The integration took over eight months and delivered minimal results. Adoption of the integrated payments by their clients was minimal at best, presenting results far below the expectations set by the payment provider's sales team. Fed up with the lack of support and low adoption rate, Happy Health decided to take a more holistic approach to their payments strategy.

Management started looking for a long-term business partner that would help them to support and maintain an integrated payments strategy. Happy Health wanted to leverage integrated tools and solutions to grow their business, so selecting the right partner with a similar mindset was the most important item.

Happy Health was no longer looking for a short-term answer to their problems. **Management now understood that IT and payments needed to be a strategy that is built and adjusted over time.** IT and payments should be viewed as a fully baked product or solution for your customers, as these features can be a meaningful driver of revenue and customer retention. After all, many studies have indicated that software providers who offer integrated payments alongside other ancillary offerings tend to retain customers longer than ISVs who do not offer such solutions.

*All opinions and statements within the ISV Mindset Case Study are those of the ISV and do not necessarily reflect the views and opinions of The Strawhecker Group.*



## The Decision

After a few months of careful research, the management team had their list of potential partners narrowed down. With a majority of their previous issues stemming from technical integrations and a lack of support, Happy Health chose a provider who they felt specialized in sustained client support. Happy Health decided to go with [Global Payments Integrated](#) as their partner. There were a multitude of reasons behind this decision, but ultimately Happy Health felt that Global Payments Integrated was able to go above and beyond their requirements. Per Happy Health, the custom integrations, previous software experience, on-site training/support, and ancillary product offering were all central selling points that contributed to their decision to go with Global Payments Integrated.

According to Happy Health stakeholders, when selling their services, “Global Payments Integrated went beyond the financial aspect of the partnership, offering custom integrations and tools to help us drive adoption of integrated payments.” This approach resonated with Happy Health’s management team, as they felt Global Payments Integrated was there to support the firm as they grew and was prepared to provide the tools and resources needed to complete the transition in a timely manner. Per Happy Health, the integration with Global Payments Integrated was made “efficient and timely due to the developer support provided throughout.” One Happy Health developer even commented that, “the workload on our team was fairly light, as Global Payments Integrated’s development teams handled most of the heavy lifting.” The integrated solution for Happy Health was implemented and live in less than two months. Happy Health’s Director of Product noted that, “Global Payments Integrated does a good job of being close to clients, I feel like I can reach out even now, months after, if I have an issue.” Since completing the integration, Happy Health has seen numerous improvements to their business as a direct result of their partnership with Global Payments Integrated. Below are a few examples.

## Deciding Factors for Happy Health Software

<p><b>Developer Focus</b></p> <p>Global Payments Integrated dedicated a team of developers to the integration and leveraged flexible APIs to reduce development cycles.</p>	<p><b>Turnkey Solutions</b></p> <p>Global Payments Integrated helped Happy Health build their go-to-market strategy, providing them a predictable and forecastable revenue stream.</p>
<p><b>On-Site Training</b></p> <p>Global Payments Integrated performed on site training sessions with Happy Health’s sales/support teams to assure long-term success.</p>	<p><b>Products/Solutions</b></p> <p>Global Payments Integrated provided holistic solutions such as ACH/EFT processing, mobile support, and account updater tools.</p>
<p><b>Data and Analytics</b></p> <p>Global Payments Integrated provided data analytics and reporting tools to aid automation and informed decision-making for management.</p>	<p><b>Security</b></p> <p>Global Payments Integrated’s technology allowed Happy Health and their customers to avoid exposure to PCI compliance issues.</p>
<p><b>Easy to Do Business With</b></p> <p>Global Payments Integrated was easy to work with, both for Happy Health and their customers. The onboarding process was simple and supported entirely by Global Payments Integrated.</p>	<p><b>Customer Engagement Suite</b></p> <p>Global Payments Integrated’s Customer Engagement Suite enhanced customer communication with the use of Callpop and social media management tools.</p>

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## Post Implementation

“

*Global Payments Integrated's customer-first mindset and sustained support were the primary reasons for selecting the provider.*

*Chief Product Officer for Happy Health Software*

”

According to Happy Health, one of the other contributing factors that backed the decision to go with Global Payments Integrated was its ancillary product offerings. More specifically, the social media booking and invoicing options turned out to be largely beneficial for the users of Happy Health's software. With integrated billing and centralized collection tools, Happy Health's clients are able to reconcile payments within the software and are supported 24/7 by Global Payments Integrated. According to Happy Health, with the help from Global Payments Integrated, the company is able to provide additional functionality and tools to its clients, which in turn drives adoption of their new payment processing integration. All of which benefits both Happy Health and most importantly their clients.

## Revenue

“

Through our new relationship with Global Payments Integrated we now recognize more than **~\$170,000** per month in revenue generated from integrated payments. With more than **2,000** of our clients leveraging the solutions, we have vastly improved penetration rates and client retention. ”

## Training/Support

“

24/7 support coupled with onsite training for sales and operations personnel ensured the launch of the newly integrated platform was a success. ”

## Customer Engagement

“

Embedded commerce allows us to provide seamless payment experiences, coupled with dynamic engagement tools to drive penetration of integrated payments. Social media management, marketing, Callpop, and CRM functionality provide additional benefit for our team. ”

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# Payment Industry Glossary

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## Payment Industry Glossary

The Payments Industry, like all other industries, has its own unique set of terms and acronyms. TSG has attempted to define many of the terms used throughout the document to explain their meaning.

### A

- **Acquirer:** a bank or processor that provides an in-house processing platform (front-end and/or back-end), other product technology, back-office services and sales functions for its own acquiring needs.
- **Acquiring Processor:** A processor provides credit card processing, billing, reporting, settlement, and operational services to the acquirer/independent sales organization.
- **Authorization:** The process of verifying that a credit card has sufficient funds to cover the amount of the transaction. An approval response code is sent to the merchant from the card issuer that verifies availability of credit or funds on the cardholder account.
- **Authorization Code:** The code assigned to the transaction once it has been approved by the processor.
- **Back-end Processor:** A data processing company that contracts with acquirers to provide communication and processing systems that connects with the interchange systems for clearing and settlement services on behalf of those acquirers. (In some cases, the acquirer may act as its own back-end processor.)
- **Basis Points:** A unit of measure used commonly in the financial industry when discussing interest rates and interchange rates where differences of less than one percent are common; one hundredth of a percentage point
- **Card Networks:** Corporations that connect consumers, businesses and financial institutions to transact through electronic payments instead of cash and checks. Major U.S. brands are American Express, Discover, Mastercard, and Visa.
- **Cardholder:** A person or entity that is issued a credit or debit account that is accessed through the use of a card.
- **Card-not-Present Transaction:** Credit or debit card transactions in which the card is not physically present, from the merchant's perspective, at the time of the actual transaction; e.g. eCommerce (internet) and mail/phone order transactions.
- **Cloud-based POS:** A point of sale system that is web-based. The system is stored and managed remotely in the cloud and can be accessed via an internet connection vs. a physical system.
- **Contactless Payments:** An emerging payment method technology that allows consumers to make purchases at the POS without physical contact between the consumer's card and the POS. This type of payment uses NFC (Near Field Communication) and RFID (Radio Frequency Identification) technology to complete the transaction.
- **Digital Wallet:** Digital wallets allow consumers to shop online and pay using a wallet system, rather than entering a credit card for each purchase. Wallets typically use a user name and PIN or other security device to authenticate the buyer.
- **Direct Processor:** A Processor whose telecommunications connection goes from the Processor's mainframe or front-end computer directly to the Switch.
- **Discount Rate:** A discount rate is a fee associated with collecting, assessing, approving, processing, and settling credit card transactions. This fee is often a percentage of the transaction value.
- **eCommerce:** Internet-originated transactions. Also, the use of the internet for commercial purposes such as banking, shopping, or purchases of financial services and products.
- **EMV (Europay-Mastercard-Visa):** Also known as chip cards. A type of credit/debit card with a computer chip embedded into it. EMV cards make in-person transactions more secure.
- **Financial Institution:** Any organization in the business of moving, investing, or lending money, dealing in financial instruments, or providing financial services. Includes commercial banks, thrifts, federal and state savings banks, saving and loan associations, and credit unions.
- **Fraud:** The crime of using dishonest methods to take something of value from another person or entity. Fraudsters dupe and deceive consumers to commit fraud (steal their identity or credentials).



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### F

- **Front-end Processor:** A company/vendor that provides communication and data processing services for authorization of card payments and the transfer of data between merchants' point of sale equipment to the back-end clearing and settlement processor. An example of a front-end processor is First Data (Nashville, CardNet and ETC).
- **Full Service Processing (FSP):** A relationship with a Bank whereby the Processor provides a broad series of services on an outsourcing basis. Processors are paid fees for the services performed and do not hold the risk for credit/fraud losses.
- **Gateway:** An intelligent application that routes payments transactions, often from shopping cart/terminal to processors.
- **Independent Sales Organization (ISO):** An organization whose primary mission is a merchant sales function and may provide some limited additional functions such as back-office customer services
- **Integrated POS Software:** An entity with proprietary POS software that is primarily built for semi-integrated and/or fully integrated, cloud-based POS systems that are based off of a tablet or mobile device.
- **Interchange Network:** An electronic network maintained by Discover, Mastercard, American Express, or Visa that exchanges data relating to the value of card sales and credits among issuers and acquirers.
- **Interchange Fees:** Fee paid (percentage of each transaction) by the acquirer to card issuing banks. Covers cost of fraud, accounts paying off monthly balances, etc. Mastercard and Visa have multiple interchange fees, based on card type, merchant type and market data requirements; covers the risk of loss and the cost of processing the transaction.
- **Issuer:** Any American Express, Discover, Mastercard or Visa member, or a commercial organization that establishes and maintains customer credit lines that are accessed through the use of a card. (Also public and private companies and financial institutions that offer card-accessed lines of credit to consumers and businesses.)
- **Magnetic Stripe:** A stripe (on the bankcard) of magnetically encoded cardholder account information affixed to a plastic card.
- **MCC Codes:** Special numbers assigned by the Card Networks to merchant types for identification and tracking purposes.
- **Merchant:** A retailer, or any other person, firm, or corporation that, according to a merchant agreement, agrees to accept credit cards, debit cards, or both, when properly presented.
- **Mobile Payments:** Using a mobile phone to pay for a wide range of services, digital and hard goods. Mobile payments can be made using direct operator billing (or WAP billing) allows the charges to be added to the user's mobile bill. Mobile payments can also be made using a credit card or mobile wallet.
- **Multichannel:** Denoting or relating to a type of retailer or merchant that provides support across several methods of shopping available to consumers (e.g. online, in a physical store, or by phone).
- **NFC (Near Field Communications):** Set of standards for smartphones and other devices to establish radio communications with each other by touching them together or bringing them into close proximity (usually no more than a few inches).
- **Omni-Channel:** Denoting or relating to a type of retailer or merchant that provides support across all of the different methods of shopping available to consumers (e.g. online, in a physical store, or by phone).
- **Payment Gateway:** An internet-based service that transports credit card information from a computer terminal or website to a credit card processor, where it can be verified and processed.

## Payment Industry Glossary

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### P

- **Payment Method:** The form of payment provided against a transaction. In the case of credit card charges or refunds, the payment method reflects the type of credit card. In the case of eCheck transactions, the payment method would be eCheck indicating that a consumer's bank account has been charged or refunded. All transactions entered through the system must contain a valid payment method.
- **PCI DSS (Payment Card Industry Data Security Standards):** Common standards for merchants and third parties resulting from the alignment of Mastercard, Visa and other card associations with the similar goal of protecting payment card account data wherever it is received or stored.
- **Point-of-Sale (POS):** The location where a transaction originates between a cardholder and a merchant.
- **Processor:** A member of Mastercard and/or Visa, or a Mastercard/Visa approved non-member acting as the agent of a member, that provides authorization, clearing or settlement services for merchants and members.
- **PSP (Payment Service Provider):** Company that provides merchants the ability to accept electronic payments. PSPs can connect to financial institutions, card and payment networks and manage relationships with them as a service to merchants.
- **Referral Bank:** A bank that does not have any form of its own merchant acquiring program, but sends merchant leads for payment processing from its client base to a partner acquirer. The referral bank is compensated with a share of the revenue the merchant provides the acquirer.
- **Reseller:** An organization that offers the services or products of a third-party that are in addition or complementary to other services offered by the reseller.
- **Secure Payment Page:** A secure payment page assures customers that their payment information is encrypted for privacy and data integrity before it is sent over the Internet. This page is typically identified by the "s" in https:// (instead of http://). Payment gateway providers make this necessary eCommerce link possible by hosting the payment gateway software and individual secure payment pages on their own servers.
- **Semi-Integrated POS System:** An entity with proprietary POS software and a white-labelled POS hardware offering that is primarily cloud based, operating on a tablet or mobile device.
- **Settlement:** The process of transferring funds for sales and credits between acquirers and issuers, including the final Debiting of a Cardholder's account and crediting a Seller's account.
- **Smart Terminal / Fully Integrated POS System:** An entity with proprietary POS software and proprietary POS hardware that is primarily cloud based, operating on a tablet or mobile device.
- **VAR:** A Value Added Reseller (VAR) that sells third-party products/services and adds its own value such as service, installation, etc.



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## ANALYTICS + CONSULTING

The Strawhecker Group (TSG) is a fast-growing analytics and consulting firm. The company serves the entire payments ecosystem, from fintech startups to Fortune 500 companies. The firm provides its clients with advisory services, research and analytics to help them plan and execute their strategic initiatives. Based in Omaha, a recognized payments industry hub, TSG is an established leader in this high-growth, ever-evolving space.



**1,000+**

Clients advised, including many in the Fortune 500



**40+**

Of the top 50 merchant acquirers served, including 9 of the top 10



**25+ Years**

Average Associate experience in the payments industry



**250+**

Completed payments company valuations; as well as ~30 buy/sell/investment advisements



**3.7+ Million**

Card-accepting merchants in TSG's AIM analytics platform, driving millions of dollars in ROI for its users