MERCHANT ACQUIRING: A FUNDAMENTAL BLOCK OF PAYMENT PROCESSSING

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Within the last two decades, merchant acquiring has transformed from an unattractive, hardware-based, legacy model to a software-first #business driving #payments growth. Let´s take a look.

Merchant acquiring is a fundamental block of what we call payment processing, i.e. the business of accepting payments. Acquirers enable merchants to accept (card) payments by connecting the different stakeholders (i.e. issuers, merchants, networks) and by providing additional services (i.e. clearing and settlement).

A few key milestones triggered this impressive transformation:

— The digitization of #ecommerce, which disrupted the payments value chain and redefined the attractiveness of payments as a whole

— The introduction of payment gateways in the late 1990s-early 2000s, which formed the springboard for the creation of software-based, value-added services on top of payments processing

— The APIsation of the #economy with APIs enabling easy and straightforward connectivity among applications of all kinds

— The gradual exit of most banks from acquiring by selling or divesting assets and by partnering with dedicated players. Big banks are still present but specialized firms like FIS (Worldpay), Fiserv or Nexi dominate the top players' list

— A huge wave of consolidation through aggressive M&A activity as a way to 1) differentiate by adding geographical, service and delivery capabilities 2) achieve economies of scale. Today the 10 largest acquirers globally account for more than 50% of the market

As a result, the traditional, stand-alone set-up is already obsolete. The new reality is not about acquiring or processing, but about addressing merchant needs in new holistic ways. The following trends stand out:

— Flexible, multi-purpose, holistic solutions delivered under an API, software-first set-up

— Fast onboarding, omni-channel capabilities, flexible pricing, full digitization of the end-to-end journey and a focus on value-added services (VAS) such as fraud #management or merchant financing will play a key role in fighting disintermediation and commoditization

— Online marketplaces driving a significant portion of the growth

— As smaller businesses grow and become more sophisticated, they will be increasingly investing in modernizing their online capabilities. According to McKinsey SMBs will spend more than $100 bn on payments services globally by 2025

— Acquiring is no longer about cards only: as e-wallets, Pay Later and all kinds of alternative payment methods grow, providers will face the challenge of incorporating those and in some cases (i.e. Asia) even of totally shifting focus

— Software becoming a delivery channel in its own right with platforms able to combine payments and software (integrated payments) set to gain market share and with software players like SaaS and ISV dominating distribution

Opinions: my own, Graphic sources: A.T. Kearney, Credit Suisse