

TSG – The Strawhecker Group



The \$58 Trillion Pie

A note from TSG on the fog of disruption in the payments acceptance market and updates on where our company is going.

In an industry as rapidly changing as payments, there is always dust in the air. The proliferation of the smartphone, the [changing regulatory environment](#), software continuing to [‘eat the world’](#) – there is a lot to consider.

Since we launched TSG in 2006, our vision has been to help payments companies navigate through the uncertainty; to **provide clarity to the complex**. We have been trusted by the world’s foremost payments companies and over 70,000 payments professionals across our channels because the genesis of our solutions are actual challenges our partners faced:

- [Consulting](#) was born out a request to benchmark processing contracts.
- Merchant attrition rates were questioned, so we developed [AIM](#).
- Transaction performance speeds at one point were assumptions. [GEM](#) benchmarked them.

These solutions, backed by our payments experts with experience from companies like Global Payments, JPMorgan Chase & Co., PayPal, Bank of America, Fiserv, Mastercard, and Google, have helped our partners outperform the market by 6% each of the last four years.

As the payments ecosystem continues its evolution (or some might say revolution), our goal is to provide our clients with agnostic and unvarnished insights that they otherwise cannot get – but that they need – to be market leaders.

Please [reach out](#) to share your thoughts with us. In the meantime, the following are updates on payment acceptance market trends and what is happening at TSG.

Thank you,

Kurt Strawhecker & Mike Strawhecker

TSG (The Strawhecker Group)

Market Insights

We provide those that enable payments acceptance (PSPs, software companies, financial institutions, networks, and the investment community) with perspective, information, and insights that are not otherwise available.

To us, our solutions are akin to baseball: it's hard to know how good you are if you only know your batting average. Once you compare yourself against all the other hitters, you know where you stand, where you can improve, and where you can unlock potential.

Recently, these topics resonated with our partners:

Is there a race to the bottom in merchant acquiring revenue?

To understand acquiring margin trends, we reviewed net processing revenue from newly boarded merchants over the last four years. In short, we uncovered that the answer is no, there is not a race to the bottom in merchant acquiring margin. In fact, it is increasing in aggregate as a percent of volume. This underscores that merchant processing is a utility, not

"Digital payments have become a big part of our lives. It's both fantastic and overwhelming to think about how seamlessly we today can make everything from Facebook marketplace payments to clicking a button on Amazon to self-reorder when the milk is empty. The influence of big tech companies expedited payment connections with emerging technology that made payments faster and more secure across the globe. The impact is that customers now demand choice and convenience when it comes to their payments."

Sukanya Madhavan

CPO & CTO, Payments at CSG

"I have worked with the TSG Team for the past decade and recommend them due to their sophisticated insights of the Payments industry, deep experience in all facets of merchant acceptance, as well as for their unique data analytics capabilities."

Jeffrey Sloan

Retired CEO of Global Payments Inc.

a commodity, as price is not the only differentiator. Note that the number of merchants reflected in this sample was nearly 3 million merchants.

How do software companies (ISVs) feel about their processing partners?

It depends. In a [recent TSG survey](#), overall ISV satisfaction with payment providers was rated low, due to lack of innovation, friction in deployment, and pricing surprises. Things that ISVs were relatively satisfied with include their terminal options, high-quality products and services, and fast transaction speeds.

How long did the average credit card authorization take in 2023?

It took 1.43 seconds, based on a controlled sample of 30 payment gateways over 12 months across the globe. More importantly, why should you care? Because speed matters. We reviewed millions of merchant records and found that improving transaction speed can add 4 months to a merchant's lifetime with its acquirer. On average in the U.S., 4 months is worth \$2,000 of net revenue to the acquirer. Further, for enterprise merchants like McDonalds, efficiency is everything as adding a second in auth time could cost them nearly \$1M in lost revenue a day.

What industries are creating the most net revenue for acquirers?

B2B creates the most, Retail is average, and Public Administration creates the smallest amount of net revenue per month. It gets interesting when you parse out the retail segment by sales channel, where the integrated software and W2 salesperson channels create 2x the net revenue of the bank (owned and referral) and tele-sales channels.

Do most gateways support emerging payment methods?

In a review of 125 payment gateways from across the globe, we found that 22% of gateways indicated native support to facilitate Buy Now Pay Later (BNPL) transactions, up from 19% in 2022. Support of merchant cryptocurrency transactions increased from 9% in 2021 and 13% in 2022 to 14% in 2023.

"We are seeing a "platform-ication" of businesses that reinforces the concept of moving payments away from being a cost center to being a revenue driver. Just think of traditional retailers that recognize they can monetize payments for in-store pop-ups. Where a consumer gets one checkout experience, and funds are settled to both the retailer and the pop-up shop. Or software vendors that can embed payments into their platform offerings. Creating a revenue stream that grows as their customers do."

Casey Klyszeiko

Head of Carat and Global eCommerce at Fiserv

"There's a movement to this distributed checkout versus more of the funnel checkout which was the classic 'bring everything to one point and then pay for it.' Hardware is still pervasive; it's everywhere and deciding on hardware for in-store purchasing is still a monumental decision because these terminals are not cheap, they require maintenance, and they require updates. You make a large investment, especially if it's incorporated into a loyalty system, you have gift cards, or barcode or QR code readers built into them. They're very sophisticated pieces of equipment."

Robert Clarkson

Head of Revenue & Growth, Americas at Stripe

Does offering merchant services lead to a higher DDA balance for financial institutions?

Yes, it does. DDAs with merchant services balances are on average ~\$20K higher. Merchant services revenue, higher balances, and greater product adoption help drive 94% higher total monthly revenue per DDA for merchant services customers vs non-merchant services customers at FIs.

What is the outlook for 2024 for U.S. merchant acquiring volumes?

Over the past several months, we have honed our forecasting model, and it has proven to be dialed-in based on results to date. In terms of average merchant size, we see an upside of 5% growth for small and mid-sized businesses (SMBs). We see the average ticket as flat. And for net revenue, we see 7% – 10% growth. Since the US SMB sector generates ~70% of net revenue for US acquirers, it is a good proxy for the state of the industry at large.

What's happening at TSG

Our philosophy has always been ‘if you aren’t getting better every day, then what is the point?’, and we stay true to this. In that vein, a lot has been happening at TSG:

Board of Advisors: Guy Harris, former Head of Merchant Services at Bank of America, joined [our Board of Advisors](#) to give us his perspective on the industry and what it needs from companies like TSG. [His insights](#) are invaluable.

Global Footprint: Payments are global and borderless, so we have partnered with firms like [TFPA](#) and [PSE Consulting](#), so we can ensure we have boots-on-the-ground wherever our clients do.

Discover, Design, & Deploy: Over the past several years, we have expanded our capabilities within our Consulting line of business beyond advisement – we also build as well. Meaning, if you are exploring the building of a payments platform, we can help design it and stand it up.

Payments Incubator: TSG launched a payments incubator program in 2023 to mentor payments startups. Like a Y Combinator for PSPs/ISOs. It has provided our team with a great perspective on the trials and tribulations of early-stage payments companies, like terminal deployment challenges for newly signed merchants.

V/MA Settlement: After more than ten years of litigation, the [Payment Card Interchange Fee Settlement](#) is moving forward. Since 2013, TSG has partnered with class action specialist MCAG, to assist the payments community with this settlement. To date, this has led to partnerships with over 40 payments companies, including [Fiserv](#), [Xplor](#), and [Bluefin](#), to ensure merchants optimize what they are due from the \$5.6B settlement. The injunctive

relief portion of the settlement [has been proposed](#) but not finalized.

TSG Consulting, Market Intelligence, and M&A: since we serve the payments acceptance value-chain, from network to merchant, our clients’ needs are diverse and often immediate. We are nimble enough to help in real-time, but also have the scale to support anything related to merchant acquiring.

- **Operations & Risk Support:** TSG is one of a handful of firms that completes [Global Acquirer Risk Standards](#) reviews in conjunction with Visa, ultimately helping BIN sponsors, merchant acquirers, and merchants install adequate policies and procedures to manage compliance.
- **Vertical Strategy:** TSG helps acquirers determine where there is opportunity, like when [we worked with KeyBank](#) to determine that 50% of veterinary merchants had a high demand for embedded banking solutions.
- **Valuations:** TSG has completed over 250 valuations of payments companies. Our differentiator is that we can benchmark each merchant individually to calculate existing upside in a merchant portfolio as well as a calculated path to get to a target valuation goal.
- **Due Diligence and M&A:** So far in 2024, [M&A](#) activity is heating up. This is evidenced by the number of active TSG due diligence projects and underscores how active private equity is in payments. Deals we have worked on include advisement of GI Partners on its investment in Rectangle Health, and Shift4 in its acquisition by Lighthouse Network.

- Monetizing Payments: Investors in payments companies and in software companies are core constituents as they look to understand the upside of their investments as well as the ability to [monetize payments volume](#).
- BrandInfluence: [Peter Drucker](#) said that “business has only two functions – marketing and innovation”, and TSG supports both, recently partnering with companies like [Discover](#) and [Chargeback Gurus](#).

TSG Subscription Products: Leveraging client feedback, TSG continues to enhance its one-of-a-kind products with new capabilities to meet ever-evolving client needs.

AIM – Merchant Portfolio Benchmarking and Optimization

- Clients asked for additional access to [integrate via API](#), so we enhanced our existing API suite: market pricing, profitability, attrition, and growth benchmarks can all be delivered directly into internal dashboards.
- Clients asked for a [Revenue Optimizer tool](#), providing the ability to reprice merchants quickly. Also, a buy rate is available for acquirers who wish to share this with their [channel partners](#).

GEM – Payments Gateway Technical and Developer Benchmarking

- Clients asked how their gateways’ [APIs stack-up](#), so we continued our annual ‘API Best of Breed’ report and awards for GEM clients, with Adyen taking the top prize, and CSG and NAB taking home awards as well.
- Clients asked for additional monitoring of their gateways (outside their walls), so we provided this to GEM subscribers with [TruMonitor](#), which includes monitoring of all digital merchant touchpoints, like application and merchant portal sites.

“Whether at Bank of America or U.S. Bank–Elavon, I actively used solutions and consultancy from TSG. I’ve seen the benefit of what TSG has to offer.”

Guy Harris

TSG Advisory Board Member
Former Head of Merchant Services at Bank of America

eReports – Timely, Credible Insights on Payments Acceptance

- Clients asked for market sizing data, so we added a consumer spending report called [CLIMATE](#), which can be leveraged for total addressable market (TAM) analyses and industry spending by geography.
- Clients asked for an expanded library of whitepapers, so we have delivered, providing a variety of reports including Click to Pay Snapshot, The Value of FI to Merchant Services, Chargebacks by Industry, Directory of Merchant Acquirers, and ISVs’ Perspectives on their Payments Partners.

TSGPortal: Later this year, TSG will be releasing its TSGPortal – think of the Bloomberg terminal for payments professionals. Leveraging the power of AI, it will be a one-stop shop for access to TSG data and information including [AIM](#), [GEM](#), [eReports](#), and client deliverables.

TSG Media: We are proud to have recently published our 950th edition of NewsFilter, [our weekly payments news digest](#), which will be expanding to twice weekly soon. Also, see TSG recently featured in news outlets including [Fortune](#), [USA Today](#), [Bloomberg](#), [CNBC](#), [Marketplace](#), and [NBC](#).

In Closing

Over the past 30 years, payments has been a 'rising tide lifts all boats' type-of-industry. It benefited from greenfield opportunities, cash/check spend converting to digital, the emergence of the internet, SaaS, and smart phones, all buttressed by the macro-tailwinds of growing GDPs, increased consumer spending, and inflation. This resulted in what is now \$58 trillion in global merchant acquiring card spend.

The future is less certain, where growth comes at a premium. Vertical integration, product differentiation, premium service, and competitive pricing are now all table stakes. Further, buyer-profiles are now more complex. As Angela Strange at [a16z](#) accurately describes, buyers of financial services infrastructure, like payments acceptance, have evolved: "Historically, financial services infrastructure purchases were mostly driven by the economic buyer ("What's my ROI?") or the business lead ("Does this solve my use cases?"). But there is now a third, increasingly influential constituent: the developer."

Companies in the payments value chain that think about the merchant, ISV, or even banks as Ms. Strange described have the upper hand. Stripe did from day one and it's what others like Adyen, CSG, Elavon, Fortis, JP Morgan Chase & Co., NAB, PayPal, REPAY, and Worldpay are doing as well, evidenced by their recent [GEM Awards](#). (Note – for the avoidance of doubt, just because companies are listed here does not mean they are paying TSG clients).

If you don't have the agnostic, straightforward perspective from payments experts backed by data that you need, maybe we can help. Think of TSG as an additional person on staff, your market research arm, or your specialized advisor. Give us a call at 1-833-690-1301 or contact us at info@tsgpayments.com

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