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IN PARTNERSHIP WITH MPE

MERCHANT PAYMENTS ECOSYSTEM

MERCHANT ACQUIRING INDUSTRY DYNAMICS

EVOLUTION OF THE MERCHANT ACQUIRING COMPETITIVE LANDSCAPE

REPORT — MARCH 2023

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Merchant Acquiring Industry Dynamics.
Evolution of the Merchant
Acquiring Competitive Landscape
—

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FOREWORD

Recent years have seen many technology-driven innovations in Merchant Payments & Card Acquiring Businesses. Historically driven by banks, traditional acquiring is transforming and becoming increasingly attractive to banks and fintech.

However, the industry is being rechallenged and faces disruption from all sides: post-pandemic implications, geo-political challenges, understanding changing economics and barriers to growth that businesses and consumers face and adapting to those changes will be the key to success.

Technology-driven innovations introducing cost-effective solutions to merchants' pain points are more relevant than ever during recession times.

Merchant Payment Ecosystem (MPE) conference is delighted to partner with Arkwright Consulting to provide exclusive insight into the Evolution of the Merchant Acquiring Competitive Landscape via this report.

We will discuss merchant acquiring trends and trends redefining commerce and the payments ecosystem at MPE 2023; looking forward to seeing you there and happy reading!

Natalia Ivanis
Head of Marketing & Media Partnership
Empiria Events

MERCHANT PAYMENTS ECOSYSTEM

EXECUTIVE SUMMARY

THE MERCHANT ACQUIRING INDUSTRY IS SUBJECT TO SIGNIFICANT AND ONGOING EVOLUTION AND COMPREHENSIVE RECONFIGURATION.

In the years between 2017 and 2021, the electronic payments industry grew at 30% and 13% CAGRs in volume and value of transactions respectively; for card acquiring specifically, the volume of transactions grew at 23% p.a. over the same period. This points to non-card methods growing in relevance vis à vis card payments. Looking at the share of processed transaction by acquirer, it emerges that the smaller acquirers[1] are those whose market share of processed transactions is growing compared to larger industry players.

The merchant acquiring industry is subject to a significant and ongoing evolution and, due to various factors, is facing a comprehensive reconfiguration. The emergence of online channels, new business models, such as marketplaces, and the overall ongoing shifts in the acquiring value chain have led to the development of a variety of business models focusing on defined sections of the acquiring transaction lifecycle. Value propositions have emerged, closely address merchant needs, with a new range of players operating across multiple business models in parallel.

The industry is subject to intense lateral rivalry between acquiring players competing on the basis of better ability to meet merchants' requirements, running a blue-ocean strategy attack from lower, often underserved segments of the value chain, and who are now expanding their reach to larger merchants. This, of course, is before we have even mentioned the growing wave of large merchants aiming to take active ownership of their own payment environments.

[1] Acquirer smaller than the top 100 by size.

This is a challenging competitive context with a potential upside for those companies able to position themselves rightly in a growing market. Success will be subject to the ability to respond to merchants' needs, adapting business models to fit three key priorities:

1. Monitoring and evaluating alternative business opportunities with the ability to act fast. This is a fast-moving industry and the ability to think strategically beyond the own business model, to evolve, and diversify, are key to retain any competitive defendable position.

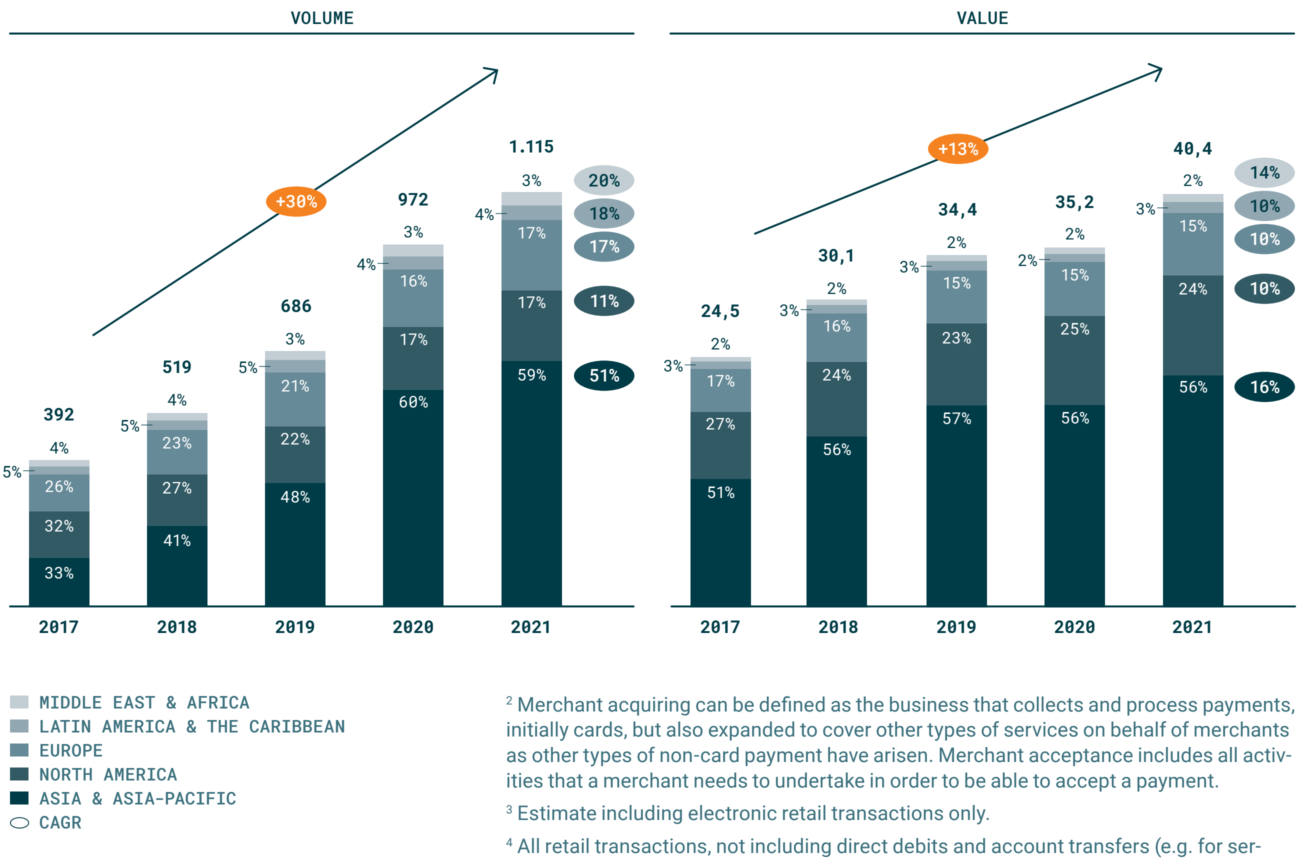
2. Retaining merchant ownership and intimacy. This is a true lasting asset in an industry where most of the other capabilities tend to be pushed to a commodity status, and in an environment where services can be sourced, re-combined and rewrapped with relative ease.

3. Developing value propositions beyond industry borders. Payments are enablers in a transaction with other steps and complexities around it. Identifying complementary opportunities, the right partnerships and suppliers, and aiming, as a coalition of partners, to address a merchant need are key to relationship building.

INTRODUCTION: THE GROWING AND INCREASINGLY COMPLEX PAYMENTS LANDSCAPE

Merchant acquiring,[2] and its corresponding industry, payments acceptance, are two major parts of the overall global payments industry and key enablers of economic activity. Overall, electronic payments adoption has been growing globally, across an increasingly varied mix of payment rails and interfaces and transaction channels, to reach a volume of over 1.1 trillion transactions[3] by 2021 at a annual compounded growth rate (CAGR) of 30% between 2017 and 2021 (as illustrated in Fig. 1 below). In the same period, the total value of transactions grew at a CAGR of 13%, and the implication is therefore that electronic payments are being used for ever smaller values and, as such, increasingly are a substitute for cash.

Fig. 1 — Global electronic retail transactions per region[4] (Volume, bn of transactions – Value, USD Tn).[5]



[2] Merchant acquiring can be defined as the business that collects and process payments, initially cards, but also expanded to cover other types of services on behalf of merchants as other types of non-card payment have arisen. Merchant acceptance includes all activities that a merchant needs to undertake in order to be able to accept a payment.

[3] Estimate including electronic retail transactions only.

[4] All retail transactions, not including direct debits and account transfers (e.g. for services such as utilities, rent, loan instalments, etc.).

[5] Arkwright Research 2023, ECB Statistical Data Warehouse, BIS Statistics Explorer, Countries' central bank annual reports, press releases of mobile payment solutions, GSMA.

The actual size of electronic transactions and their related growth rates vary significantly across regions. When examined against GDP growth, rises in the volume of electronic payments show a correlation (r) of 0.58, and comparing the growth of GDP and electronic payments leads to the working hypothesis that, while economic activity has some relevance, other factors as cash substitution may be much more influential in driving adoption and increasing usage of electronic payments.

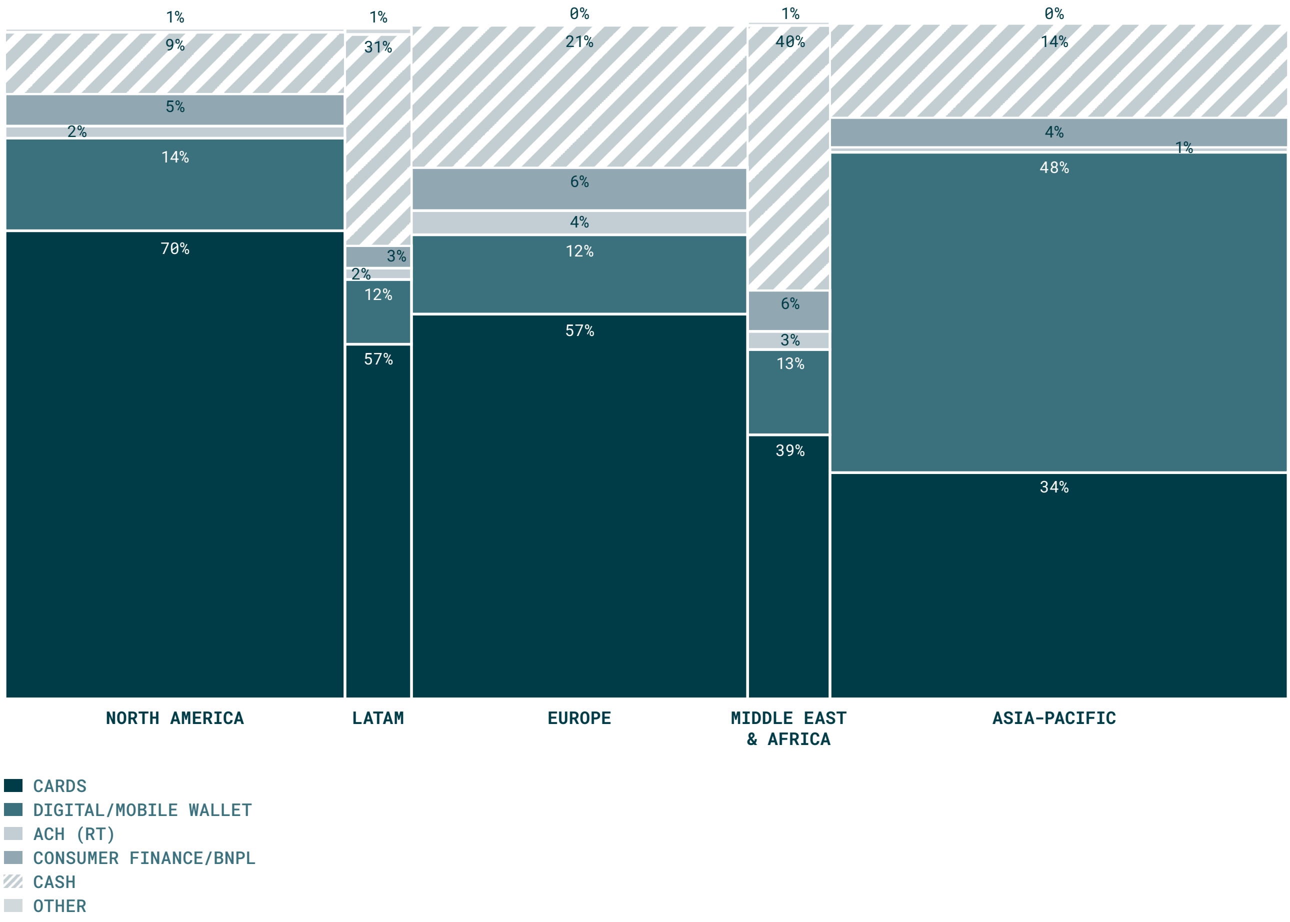
As there is a proliferation of payment services, volumes are growing in a fragmented way, further driven by a proliferation of interfaces and settlement rails for closed-loop wallets and the wide deployment of real time payments infrastructure.

Fig. 2 — Payments methods accepted at point of checkout globally (selected sample).

Fig. 2 provides an illustrative, but by no means exhaustive snapshot of the number and variety of payments solutions accepted by merchants globally.

Fig. 3 provides an illustration of the distribution of payment methods by region, outlining geographical differences, especially in respect of the remaining relevance of cash.

Fig. 3 — Share of payment service type used by customer at point of payment (global 2022).[6]



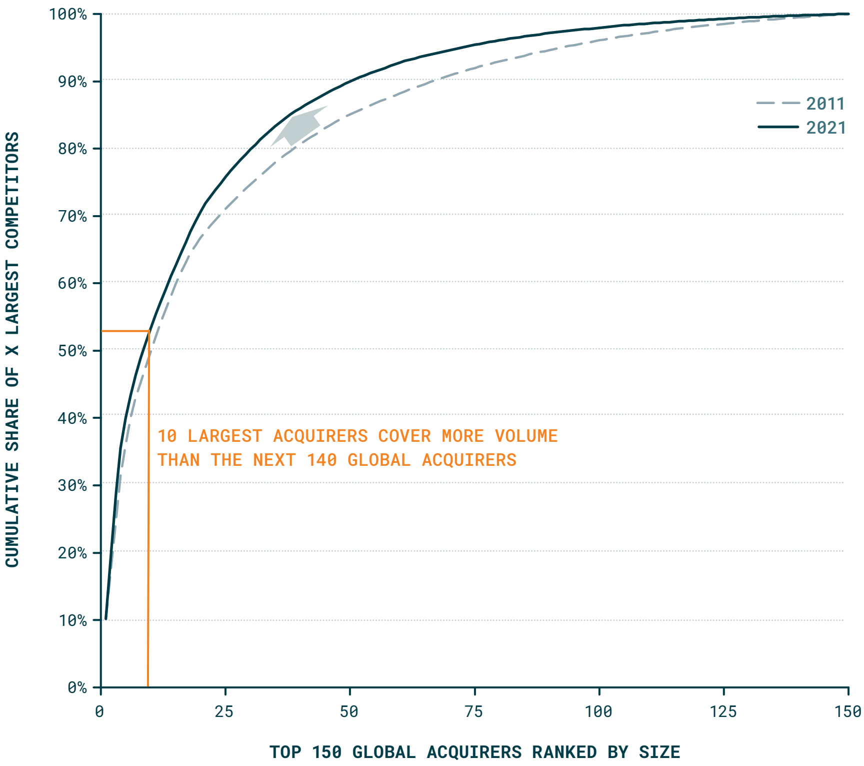
[6] Arkwright Research 2023, ECB Statistical Data Warehouse, BIS Statistics Explorer, Countries' central bank annual reports, press releases of mobile payment solutions, GSMA, FIS.

ACQUIRING INDUSTRY DYNAMICS

Despite payments fragmenting amongst newly established rails and a proliferation of payments interfaces, the merchant acquiring industry has reached the maturity stage of an industry lifecycle.
By analyzing the share of processed transactions volumes by acquirer, the market appears to be concentrated on a limited number of players processing over half of the total payment transactions globally.

Fig. 4 provides an illustration of the concentration of acquired volumes and of how this has been evolving over a ten year's period between 2011 and 2021.

Fig. 4 — Merchant acquiring concentration based on volume of processed transactions (cards acquiring, global 2011–2021).[7]

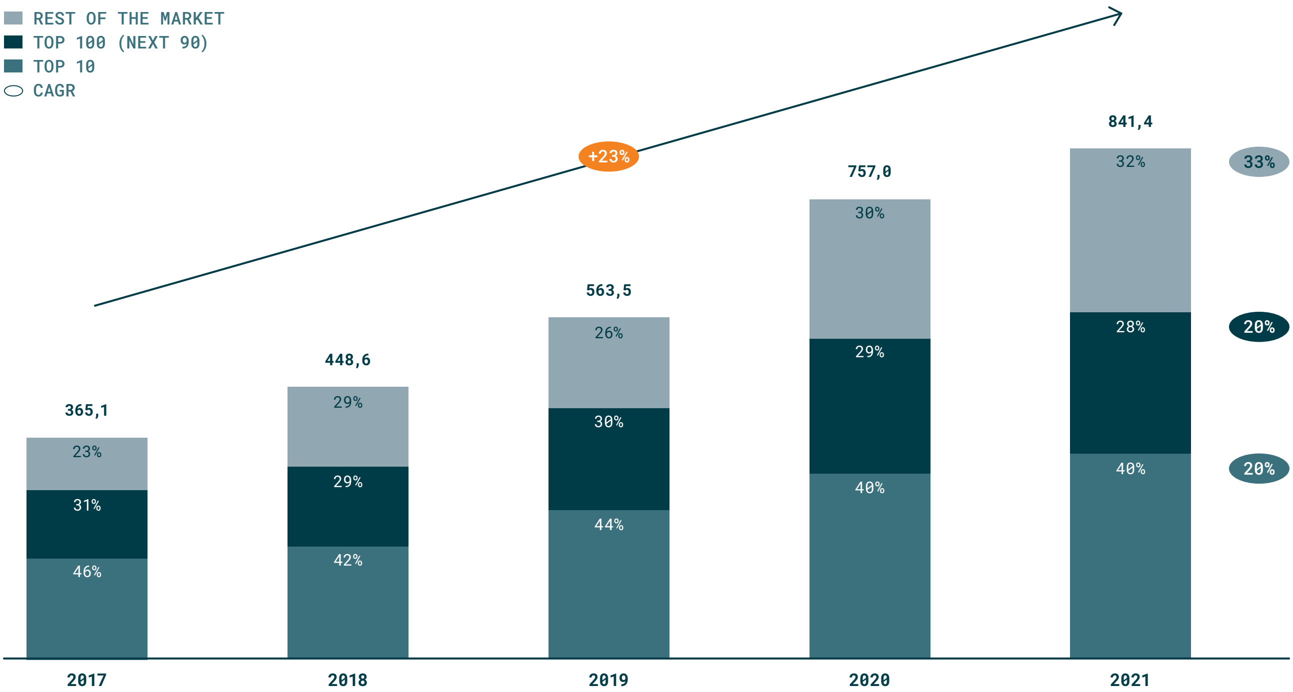


[7] Arkwright Research 2023, ECB Statistical Data Warehouse, BIS Statistics Explorer, Countries' central bank annual reports, press releases of mobile payment solutions, GSMA, Nilson.

When analyzing the growth of processed transactions volume by merchant acquirer size, as illustrated in Fig. 5, however, it is interesting to note that, since 2017, the segment of smaller players within the card acquiring industry has grown at a higher rate of 33% p.a. compared to an overall market growth of 23% p.a., with the largest 100 acquirers by volume growing at a slightly lower rate of 15% p.a.

While the below diagram illustrates the distribution of acquired volumes based on card transactions, it should be noted that the emergence of new payment schemes, such as QR-code-based closed-loop wallets, open banking payment solutions, and mobile money is probably adding to the fragmentation of acquired transaction across different players.

Fig. 5 — Concentration of processed card transaction volumes by acquirer size segment (transactions bn, global 2017 - 2021).[8]



[8] Arkwright Research 2023, ECB Statistical Data Warehouse, BIS Statistics Explorer, Countries' central bank annual reports, press releases of mobile payment solutions, GSMA, Nilson.

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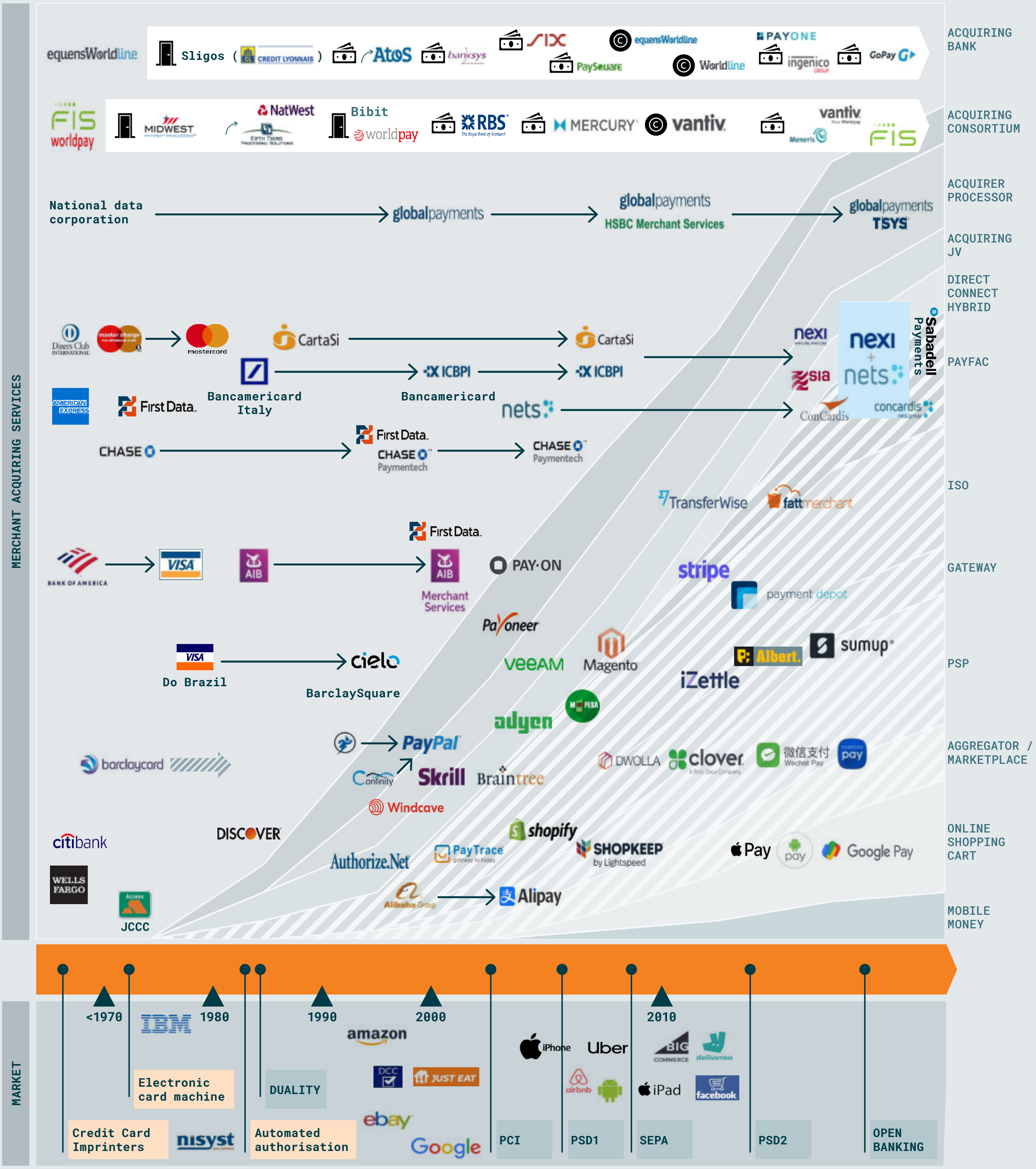


INDUSTRY INFLUENCE

BRANCH-OUT

FOUNDATION

BRANDING

M&A

PROLIFERATION OF ACQUIRING BUSINESS MODELS AND RECONFIGURATION OF THE ACQUIRING VALUE CHAIN

What started as a single-business-model industry with the establishment of the card payments industry in the 1960's has developed into a variety of value propositions to merchants. In the 2000's and 2010's, this evolution accelerated markedly as online retail channels grew and the platform and ecosystem business models increased complexity. Now, the industry is seeing the emergence of new models as mobile money operators and other non-card acquirers expand their offering to cards. Fig. 6 provides an illustrative representation of this acceleration over recent decades.

Fig. 6 — Directional illustration of the merchant acquiring industry evolution.[9]

As this chart indicates, over the years, the merchant acquiring value chain has been subject to a significant and ever-accelerating degree of reconfiguration.[10] Merchant acquiring can be traced back to the 1950s, when the Diners Club card was introduced; the first bank to act as a merchant acquirer is a matter of debate, as various financial institutions were developing similar services at the same time, but one of the earliest was Bank of America in 1970. Merchant Acquiring joint ventures started appearing in the early 1980s: First Data Corporation has signed several joint ventures with various banks over the years, and one of its earliest was the WFDC (Wells Fargo Data Corporation) partnership with a bank in 1982. In the same period, the first banking consortia emerged within an industry that otherwise remained relatively constant strategy-wise until the arrival of the internet.

In response to e-commerce, banks developed their first gateways, then called Internet Payment Service Providers (IPSP), with Wells Fargo launching its first online payment processing service in 1995, and Bank of America following in 1996. It was at this time that the payment interface and acquiring started decoupling at sale, with CyberCash and First Virtual Holdings launching in 1994.

[9] The timeline shown is not exhaustive and focuses on the most important market entries and transactions in the merchant acquiring area, as well as the developments driving the market. Source: Arkwright Research.

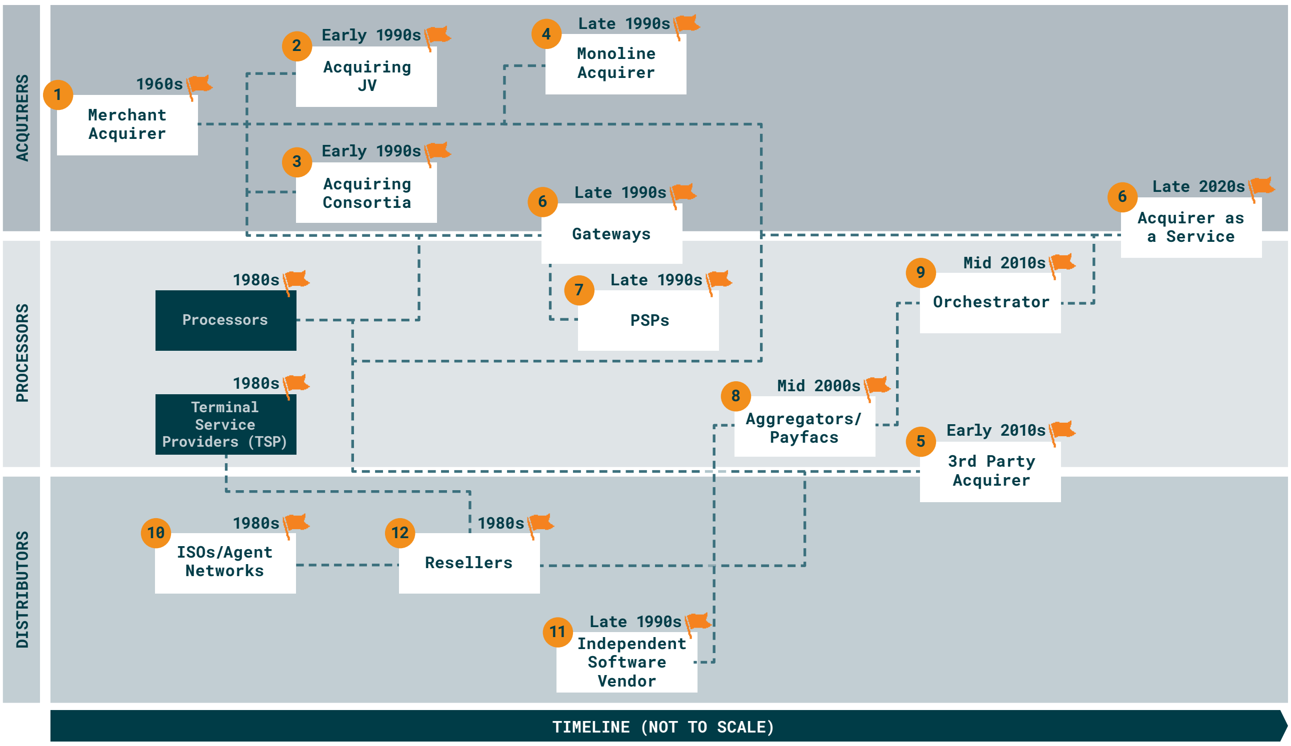
[10] List of business models and their definition is based on Arkwright's and Arkwright's clients and partners' view and understanding of the market. This does not exclude that business models may be referred to naming different to those listed herein. Similarly, the list is likely to miss hybrid variants and intermediary models and it is not to be assumed as exhaustive.

Fig. 8 — Classification of business models within the merchant acquiring industry (not exhaustive, selected references).[13]

From there, the emergence of payment service providers, aggregators, and orchestrators ensued, with this latter model more recently evolving into Acquiring as a Service (AaaS). In the 2010s FinTech wave, these business models expanded with a range of variations aiming to offer better services to merchants and users.

Fig. 7 — Evolution of the merchant acquiring industry by main business model types.[11]

Fig. 7 provides an illustration of how the main business models[12] have evolved (please refer to Fig. 8 for further detail about these models).



[11] This timeline is indicative and not to scale; correlations between business models should be considered as non-exhaustive and directional. This chart is based on Arkwright consultants' expertise and on the views of the sounding board members based on their experience and industry knowledge. Source: Arkwright Research.

[12] List of business models and their definition is based on Arkwright and Arkwright's clients and partners view and understanding of the market. This does not exclude that business models may be referred to naming different to those listed herein. Similarly, the list is likely to miss hybrid variants and intermediary models and it is not to be assumed as exhaustive.

[13] Source: Industry press and primary research. Arkwright Research.

MODEL	ORIGIN	DESCRIPTION	EXAMPLES
1 MERCHANT ACQUIRER / BANK ACQUIRING	1968 (Bancamericard that later founded Visa)	— Providing payments acceptance service to merchants, mainly cards lately expanding to multi-rail. Initially operating the full processing stack, role that was most taken over by specialist processors — Business line complementary to cash management and treasury solutions	Bank of America, Wells Fargo, BNP Paribas
2 ACQUIRING JOINT VENTURES	Early 1990s	— Strategic alliance between an acquirer processor and a bank combining a mix of scale, skill and specialization to businesses that might be underleveraged within a range of pure banking services — Operating as a monoline acquirer under a bank license and, often, its own brand	Chase Paymentech, Lloyds TSB Cardnet, ConCardis
3 ACQUIRING CONSORTIA	Early 1980s	— Bank joint venture providing acquiring services to bank stakeholders (and to third-party client banks) — From the 2000s became less common and often evolved to a monoline acquirer model	equensWorldline, concardis, CartaSi, SIX
4 MONOLINE ACQUIRERS (ON LICENSE)	Late 1990s	— Monoline acquiring business that mostly grew by acquisition of acquiring portfolios of small and mid-size banks, which then outsource acquiring to their buyers. Operated under own acquiring license. — Often evolving to parallel models addressing different geographies	nexi, Network, adyen Europe, EVO Payments, worldpay
5 MONOLINE ACQUIRER (ON SPONSOR LICENSE)	Late 1990s / early 2000s	— Monoline acquiring business that mostly grew by acquisition of acquiring portfolios of small and mid-size banks that then outsource acquiring to their buyers. Operated under a third party bank sponsor license — Also called third-party acquirer, or “rent a bin” business model	globalpayments, adyen US, GHL
6 GATEWAYS	End of 1990s / early 2000s (Initially called IPSP)	— Started as "online acquirers”, offering a payment gateway (virtual equivalent of POS terminal) to acquiring banks, then evolved into payments processing for online merchants — Providing front-end portal connectivity integration to payment networks for processing and authorization, with addition of fraud solutions	Authorize.Net, CyberSource, payment gateway services
7 PAYMENT SERVICE PROVIDERS (PSP)	Since early 2000	— Evolution of Gateway business model combines the provision of a merchant account in addition to payment gateway services including non-card and emerging payments — Initially called Digital Payments Intermediaries. Advanced propositions developed into Platform Ecosystems	Checkout.com, PayPal, sumup, stripe
8 MERCHANT AGGREGATORS	Mid 2000s	— Evolution of Gateway business model combines the provision of a merchant account in addition to payment gateway services including non-card and emerging payments — Initially called Digital Payments Intermediaries. Advanced propositions developed into Platform Ecosystems	Square, iZettle, talabat, DPO, fawry
9 ORCHESTRATION / ACQUIRING AS A SERVICE	Mid 2010s (Orchestration) / Late 2010s (AssS)	— Processing & optimization of a merchant’s payment flows across payment providers and channels improving acceptance rates and optimizing costs — Based on central platform/solution with multiple integration dynamically routing transactions to the most appropriate payment method	paynt, tribe, ikajo, Payoneer, AKURATECO
DIRECT CONNECT HYBRID (BY CARD NETWORKS)	Late 2000s	— Payment processing model where the payment scheme connects directly with the issuer to process transactions — Also known as the direct-to-issuer model, was first introduced in the late 1990s by the Japan Credit Bureau (JCB)	MITSUKOSHI, coles, Woolworths, Walmart
MOBILE MONEY / ALTERNATIVE PAYMENTS	Late 2000s	— Mobile money closed loop solutions that are expanding, also through the acquisition of financial services licenses, to card acquiring and to the provision of PSPs and aggregator solutions and expansion of their wallet functionalities	LIPA NA M-PESA, MTN Mobile Money
10 INDEPENDENT SALES ORGANIZATIONS (ISO)	Late 1980s	— Third-party entity that is authorized by a payment processor or acquiring bank to sell and market payment processing services to merchants. In other words, an ISO acts as a middleman between a payment processor or acquiring bank and merchants who need to accept electronic payments	NPC, North American Bancard, payline, Merchant Account Providers
11 INDEPENDENT SOFTWARE VENDORS (ISV)	Mid 1990s	— Company that specializes in developing and selling merchant-sector specific software applications that run on various hardware platforms and operating systems	NCR, retailpro, shopify, vend
MARKETPLACE AGGREGATORS	Late 1990s	— Marketplace aggregators typically provide a centralized platform that facilitates transactions between buyers and sellers, including payment processing, order management, and shipping logistics	amazon, ebay, houzz, Etsy
ONLINE SHOPPING CARTS	Mid 2000s, increasing importance from 2010	— Software application that enables customers to select and store items they wish to purchase on an e-commerce website before proceeding to the checkout process	Woo Commerce, zencart, BigCommerce, Magento, opencart
12 RESELLERS	Mid 2000s, increasing importance from 2010 onwards	— **Closer to merchant** (creation of online store with integrated payment acceptance capacity) — Shopping cart software is designed for **online merchants** that offer a specialized shopping experience or want to **customize their website**	Diebold Nixdorf, NCR, Fujitsu, GHL

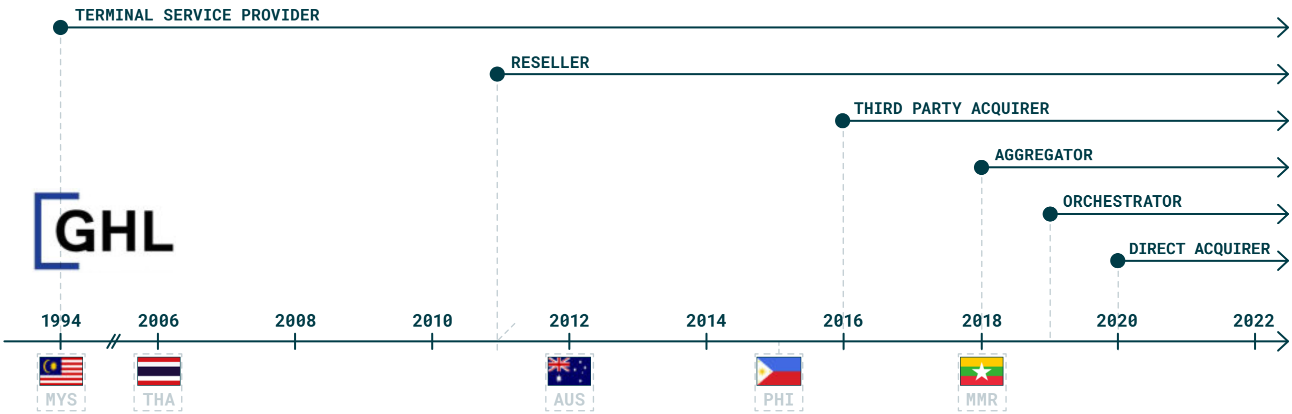


Fig. 9 — Example: Value proposition expansion of GHL Systems Berhad.[14]

While some developed as a variation of the bank acquirer, others grew out of processing services and focused on the provision of interfaces and transaction processing services. Others still evolved from distributors, which started by acting as networks of agents recruiting merchants on behalf of acquirers and developed into resellers holding the title to the merchant account before, finally, becoming acquirers themselves. The corresponding business models are described in Fig. 8, which provides an illustration of business models within the acquiring industry with the descriptive definitions in use by Arkwright for the purposes of its own industry research, analysis, and engagements.

As there are companies providing value propositions with characteristics which could be described across two or more models, the above list is not to be considered exhaustive. Moreover, the same model is often described using different terms between regions and, similarly, companies may define themselves under different labels for their own positioning and marketing purposes.

It is also important to note that companies frequently operate across a variety of business models: as the industry evolves and expands, so do the services and solutions offered by all companies operating in the industry as they adapt to changes in technology, demand, and the competitive landscape. One example of this is GHL Systems Berhad, whose value proposition expansion is illustrated in Fig. 9. GHL started as a Terminal Service Provider in Malaysia in 1994; since its inception, it has subsequently expanded its business model to reseller, third-party acquirer, merchant aggregator, orchestrator and, most recently, to direct acquirer. It now operates all of these business models and has, concurrently, expanded to other markets across the South-East Asian region.

[14] Source: GHL Systems annual reports, industry press, and primary research. Arkwright Research.

DRIVERS OF CHANGE FOR THE ACQUIRING INDUSTRY

There are many forces and dynamics shaping the industry, with different analysts grouping these in varying thematic descriptions and dimensions. Fig. 10 provides an illustration of these drivers based on Arkwright's experience, research, and analysis. These drivers are strongly interrelated, mutually enabling, and reciprocal in their influence.

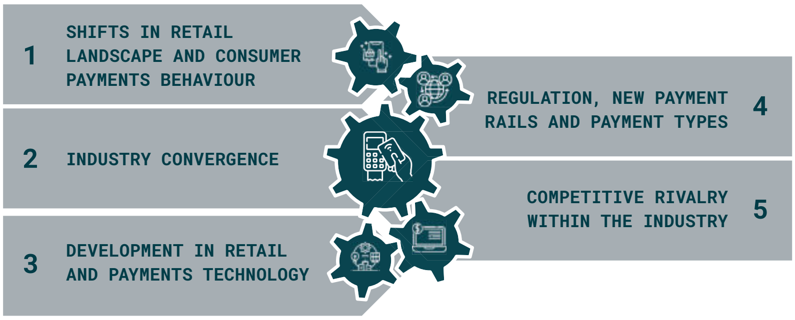


Fig. 10 — Drivers of change for the acquiring industry.

These drivers could be detailed as follows:

1. Shifts in retail landscape and consumer payments behaviour

The retail industry is subject to the same depth of change as the acquiring industry. Over the last two decades, e-commerce in its variations (e.g. mobile, social commerce), the development of new retail business models (e.g. marketplaces), and the omni-channel nature of commerce have driven demand for new acquiring business models and value propositions. Comprehensive reporting, faster payment authorization, immediacy, customization, contextual availability expectations, and user experience are all factors leading to embedded services, the growth of wrappers and single interfaces, and the further re-configuration of the acquiring value chain.
The overall competitive landscape in acquiring is further complicated by clients, mostly large retailers and marketplaces, developing their own payment solutions in addition to their app interfaces and loyalty programmes, blurring boundaries as supply and demand for payment services are converging.

2. Industries convergence

The retail industry and its technology suppliers are converging with the acquiring industry, cannibalising it to a certain degree.

OUTLINED CHANGE DRIVERS ARE STRONGLY INTERRELATED, MUTUALLY ENABLING, AND RECIPROCAL IN THEIR INFLUENCE.

So far, this has been a single-sided dynamic enabled by:

— the push for payment acceptance cost reduction (e.g. by large retailers such as Coles and Woodwards in Australia becoming third party acquirers and then full merchant acquirers themselves)

— the pursuit of new revenue sources by ISVs and suppliers to the retail industry (e.g. the expansion of ISV and aggregators such as Shopify into the direct provision of payment related services through its payment platform Shopify Payments)

3. Development in retail and payments technology

Technological advance is the key driver in the evolution of any industry: retail, related payments acceptance, and merchant acquiring are no exception. New online channels (e.g. mobile), faster connectivity (e.g. 5G), new technologies (e.g. distributed ledger technologies), lower technical barriers to connectivity and data exchange (e.g. APIs) are pushing radical changes in the acquiring industry and have led to the emergence of new devices (e.g. tablet POS, soft POS), data and value added services (VAS), and the closer integration of payment processing services within retail interfaces through which transactions are completed.

4. Regulation, new payment rails and payment types

Regulatory changes and payment modernization undertaken by governments and central banks continue to impact the industry, ranging from the complexities and increased cost of compliance due to on-soil processing, GDPR and data-residency requirements to the rise of new payment types enabled by real-time payments (RTP).

Then, there are the changes likely to proceed from FinTech innovators and new competitors, enabled by the lowering of licencing barriers and access to the provision of payments and transaction related services from open-banking regulation and payment service provider licensing.

Regulation and the new payment rails have led to new payment types such as Asian closed-loop wallets, mobile payments, and the services being developed over RTPs are set to have an effect. These new payment types must be integrated into check-out options and experiences with merchants demanding single points of integration, one-stop reporting, and consolidated settlement.

5. Competitive rivalry within the industry

Exogenous drivers are not exclusive of endogenous ones. Rivalry within the industry itself, and competition between players holding payment licenses and the title to merchant account, as well as payment technology and processing providers, is intense. Scale, the ability to better match merchant requirements and consumers' expectations, access to technology, and the ability to manage and underwrite risks are shifting in a dynamic in which everybody is actually competing with everybody else across multiple lines, ranging from retail interface integration and provision of VAS to actual payment processing and data strategies, in an ongoing battle to avoid price compression and reverse commoditization.

HYPOTHESIS AND STRATEGIC CONSIDERATIONS

So what are the implications of all this for incumbents and new entrants alike?

Based on what we are observing in the market and the analysis conducted during our engagement with acquirers, PSPs, and retailers, our working hypothesis is that new entrants are better at capturing growth opportunities compared to most of the large incumbent players. Overall, based on companies analyzed during the course of our engagements, asset-lighter business models (and their related merchant bin sponsors) are showing better financial performance[15] and the ability to respond faster to opportunities compared to large bank acquirer incumbents. Fig. 11 provides an illustration of the differences that we have been observing across the acquiring business models.

Fig. 11 — Asset intensity and scale dependency of selected acquiring business models.

BUSINESS MODEL	ASSET INTENSITY	SCALE DEPENDENCY
MERCHANT ACQUIRING	●	●
MERCHANT AGGREGATION	◑	◑
PAYMENTS ORCHESTRATION	◕	◕

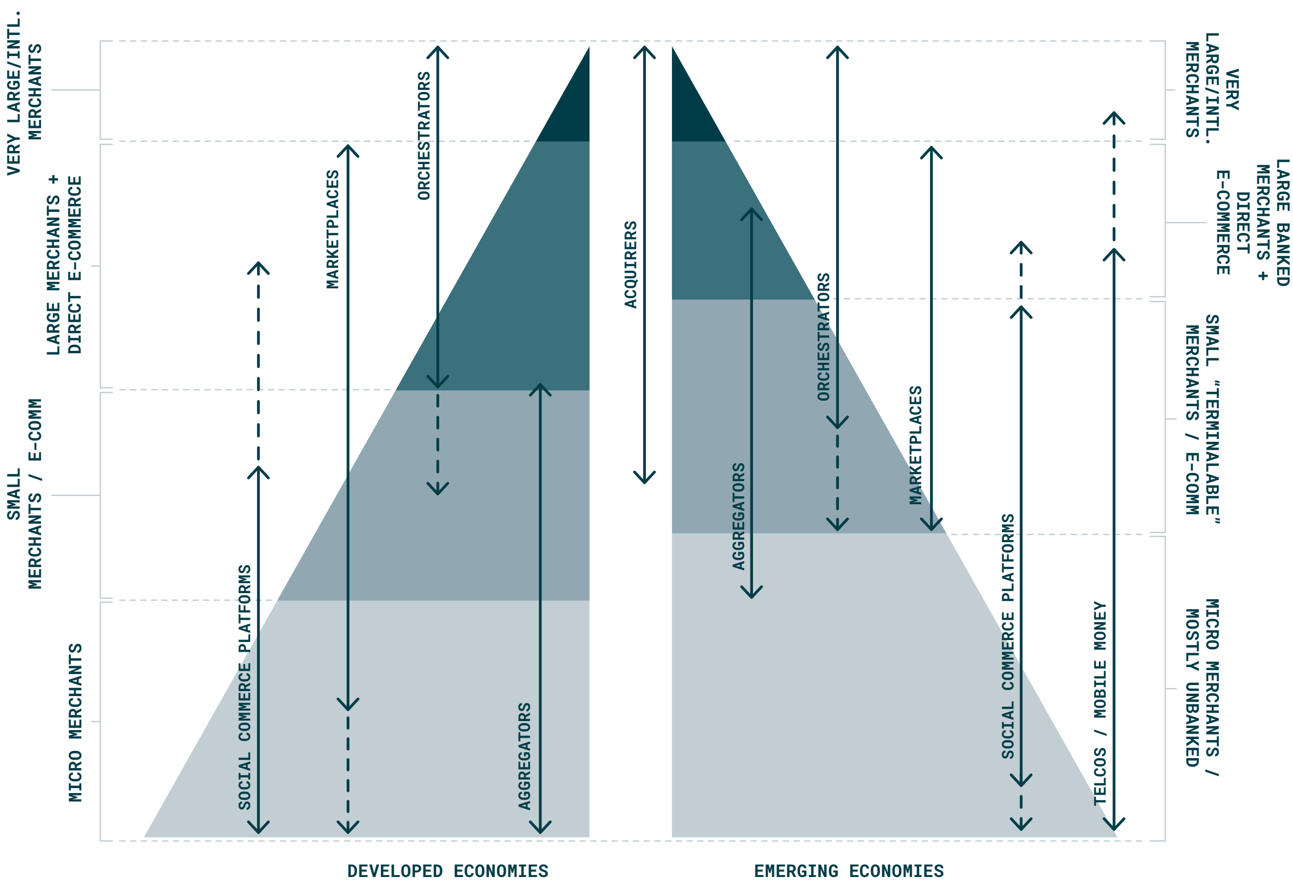
Our market observation and analysis also leads to three strategic considerations which are outlined in the following sub-sections.

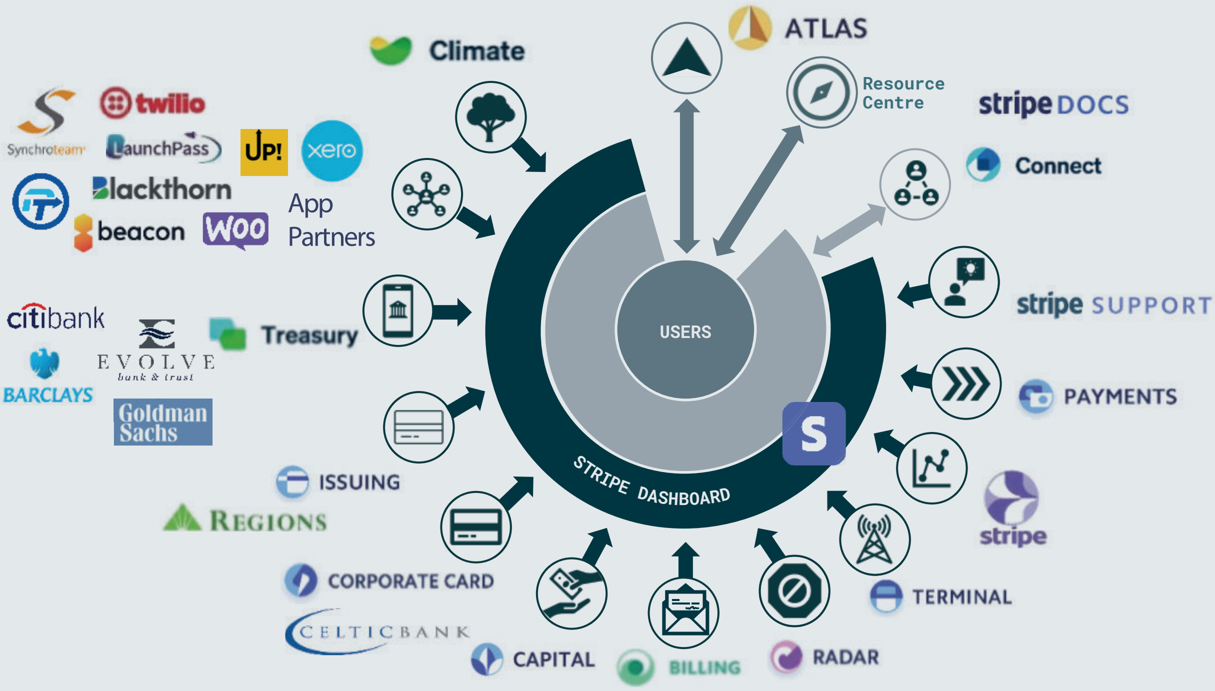
[15] This is intended as return on assets and operating margins, intentionally leaving data points out due to confidentiality constraints and the fact that is it not always possible to compare performance of different companies without the context of their evolutionary stage, the competitive intensity of the segment, or the geography in which they operate. Further reasons are the number of business model types that are being pursued in parallel by the same organization, and, should this be the case, the segment-specific accounting adjustments needed to identify the financial allocation of each product.

The emergence and expansion of non-card players

There is a constant expansion of non-card players which are going beyond addressing use cases and segments previously underserved by the traditional payments industry or targeting cost reduction opportunities. Competitive dynamics and their speed vary significantly between developed and emerging economies, but in general terms, large incumbent acquirers in developed markets have historically focused on large merchants, leaving unmet demand in small and micro-merchant spaces. In developing economies, this situation is even more prevalent due to the large under-served merchant segment in which closed-loop wallets, mobile money, and emerging payments have been operating. Fig. 12 provides an illustration of the reach of acquiring business models across merchant segments.

Fig. 12 — Acquiring business models across merchant segments.

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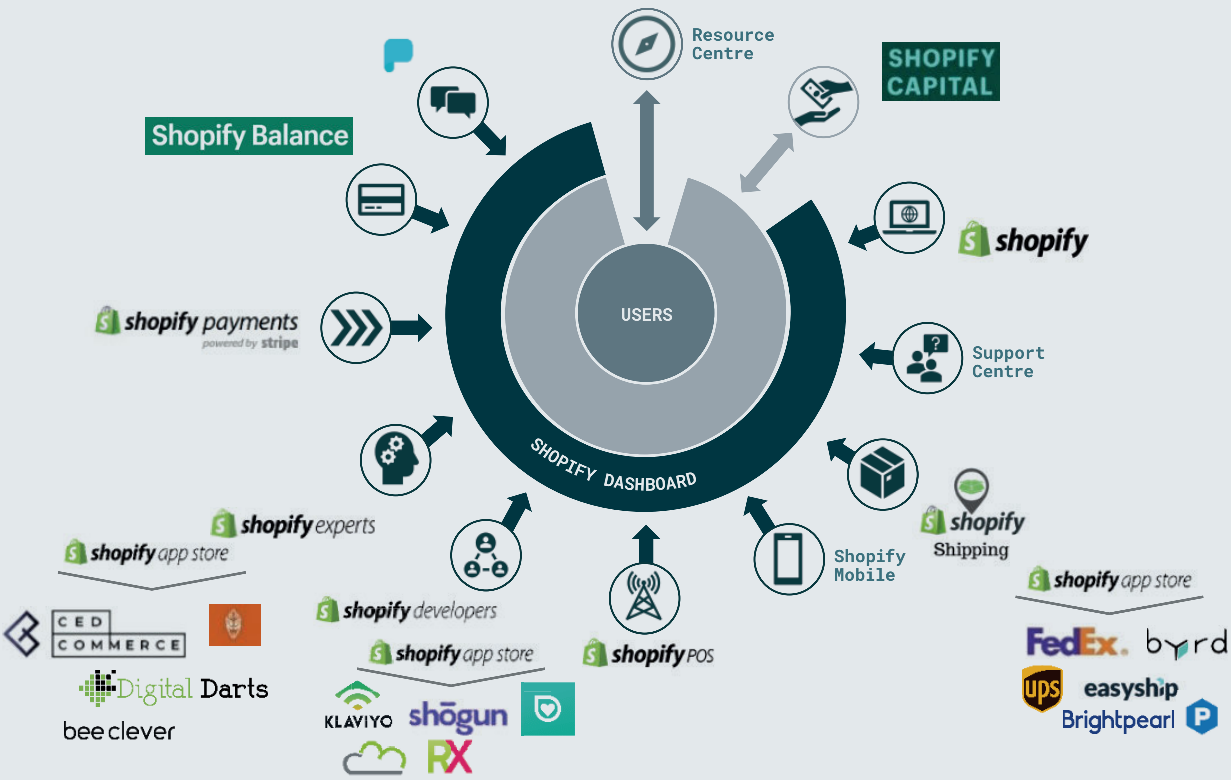
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RIVALRY IN THE INDUSTRY IS CHARACTERIZED BY LATERAL COMPETITIVE PRESSURES BASED ON THE ABILITY TO UNBUNDLE AND RECONFIGURE TRANSACTION PROCESSING SERVICES.

The implication is that rivalry in the industry is characterized by lateral competitive pressures based on the ability to unbundle and reconfigure transaction processing services; additionally, there is an upwards expansion of players addressing the needs of non-customers from a traditional acquiring perspective - they have developed an effective blue-ocean strategy and are currently are moving upstream. This applies to telecom providers and closed-loop super-apps expanding into banking and acquiring in developing economies as well as to Block, previously Square, establishing its base with micro-merchants and then expanding to larger merchant segments in developed economies.

VAS becoming the main value proposition

Value added services (VAS) have been, for a long time, an element of the acquiring industry. Now, the development of platform ecosystem retailing solutions – where payment is one of the many services available - has turned VAS into mainstream solutions to which payment acceptance has become a complement and, comparatively, a commodity.

Fig. 13 – Stripe's customer journey ecosystem value proposition.

Fig. 14 – Shopify's customer journey ecosystem value proposition.

This is happening in the merchant acquiring and the retail technology businesses alike. Fig. 13 and Fig. 14 provide an illustration of Stripe's and Shopify's customer journey ecosystem value propositions. Stripe and Shopify used to be connected to each other, with the former providing payments solutions to the latter, but are no longer cooperating as both have now become orchestrators competing against each other. This is an example of how VAS are now de facto the value proposition to merchants, with payments going from being a central core service to a complementary addition.

Stripe started as a linear business model (PayFac and acquirer), then evolved to a platform, and has now finally become a full merchant journey ecosystem value proposition. As such, it is pursuing expansion to in-shop acquiring, in-shop smart terminals, and wallet solutions for merchants to offer to customers; Stripe currently services two million merchants and processes $640bn GMV.[16]

[15] GMV = Gross Merchandise Value, a synonym to total value of sales. https://www.investopedia.com/terms/g/gross-merchandise-value.asp

SUCCESSFUL CASES PROVIDE EVIDENCE THAT CUSTOMER INTIMACY AND THE TECHNOLOGY CAPABILITIES ARE CRUCIAL TO SUCCESS.

Shopify also started as a linear business model (software for merchants to set-up e-commerce), then evolved to a platform and has now become a full merchant journey ecosystem serving the entire merchant (product lifecycle) value chain; it has since expanded its reach to payment services with its Shopify Payments services.

The merchant relationship and tech capabilities priorities

In the times gone by, the ability to operate transaction processing and handle merchant risk at scale was the key to operating a successful acquiring business. Now, the industry mantra of getting scale (often at loss) from large merchants and margin from smaller ones on the basis of lower transaction processing costs is no longer a universal formula to higher value capture.

Successful cases like GHL System Berhad provide evidence that customer intimacy and the technology capabilities needed to reconfigure the value proposition to adapt quickly to merchant needs are crucial to success, in the way scale was once the single overarching concern. In this specific case, the customer relationship stems from the TSP business, with technicians deploying and servicing terminals at merchant sites and the technical capabilities from the historical experience of distributing, servicing, and developing POS software later expanded into processing.

CONCLUSIONS

Merchant acquiring is now, and continues to become, a complex universe with a significant variety of business models and related value propositions, which have been evolving over time and at increasing speed in order to closely address merchant needs. At present, the industry is subject to intense rivalry, including the growing challenge of large merchants taking direct control of their own payment environments and developing payment solutions on their own.

Given the continued growth of electronic payments adoption and usage, this is a high-stakes competitive context where successful players are proving to be those able to adapt their focus and business models to respond to merchant needs at speed while retaining ownership and intimacy and evolving value propositions across established delineations.

This is a challenging competitive context, highly dynamic but, at the same time, presenting opportunities to incumbents and new entrants alike. For all of them, the potential upside is that of a growing industry, of the opportunities deriving from an evolving retail industry whose needs will require new business models for these to be addressed. Success will be subject to the ability to respond to merchant needs, adapting business models to fit three key priorities:

1. Monitoring and evaluating alternative business opportunities with the ability to act fast.
This is a fast-moving industry and the ability to think strategically beyond the own business model, to evolve, and to diversify, is key to retain any competitive defendable position.

2. Retaining merchant ownership and intimacy.
In an industry where most of the other capabilities tend to be pushed to a commodity status in an environment where services can be sourced, re-combined and rewrapped with relative ease, this is a true lasting asset.

3. Developing value propositions beyond industry borders.
Payments are enablers in a transaction with other steps and complexities around it. Identifying complementary opportunities, the right partnerships and suppliers, and aiming, as a coalition of partners, to address a merchant need are key to relationship building and to value creation and capture.

In this context, Arkwright works with banks, acquirers, PSPs, technology and service providers, retailers as well as corporations to help navigating the changing landscape, to assess challenges ahead and pursue the opportunities. With our experience in strategic planning and execution, our track record within the acquiring industry, and with our thought leadership in platforms and ecosystems, Arkwright is ideally positioned to support its clients to secure their business and pursue growth.

ABOUT MPE

Merchant Payments Ecosystem in Berlin (MPE) is Europe's #1 Merchant Payments conference connecting 1300+ senior-level merchants & payments professionals with the proven & highly valued combination of networking opportunities, a carefully curated program in the electrifying MPE atmosphere.

The event & its community have always been a barometer showcasing what will matter over the next 12 months in the industry. Although nobody can predict what will happen, getting insights into the latest trends from industry research & analysis, debating and confronting different standpoints at MPE in Berlin (MPE), helps the industry better understand these dynamics.

Uniquely focused on merchant payments, MPE connects Merchants with Acquirers, PSPs, POS SW & HW vendors, established companies, and start-ups from 40+ countries, supported by three days of world-class content by TOP industry Leaders & Influencers.

Find out more at https://www.merchantpaymentsecosystem.com/

ABOUT ARKWRIGHT

WE BELIEVE IN PRAGMATISM, METICULOUSNESS AND DEEP KNOWLEDGE OF THE INDUSTRIES IN WHICH WE OPERATE

Arkwright is a management consulting firm offering strategy advisory services to private corporations, NGOs, investors and start-up companies. Amongst a number of different industry-dedicated teams, our Digital, Payments and Digital Banking practice is one of the most experienced globally, positioning Arkwright as a high-end digital financial services and payments specialist strategy boutique.

With clients that include major financial institutions, central banks, technology providers and institutional investors as well as internet market places and media organisations, Arkwright has hands-on experience in leading and supporting the development of digital strategies and digital transformation.

Our knowledge of global cases and best practices, proprietary ideation methodologies and the hands-on experience of our management consultants and industry experts is able to support throughout the strategy and implementation phases.

We believe in pragmatism, meticulousness and in deep knowledge of the industries in which we operate. At the heart of our mission is the development and implementation of enduring performance improvements and growth strategies, in partnership with our clients.

When we founded Arkwright in 1987, we did so with a strong belief that clients' sustained success requires deeper collaboration and a different working model than what we experienced at the time. Since then, our focus on deep-rooted, long-term partnerships with selective clients has formed the basis of our approach and helped us grow to what we are today: an international consultancy with Nordic roots, operating truly globally, from our offices in Hamburg, Oslo and Stockholm and with additional operational presence based in the Middle East and the US.

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