stripe | PYMNTS.com

PAYMENTS 2022

HOW PLATFORMS WILL USE PAYMENTS TO TRANSFORM GLOBAL ECONOMIES

The Payments 2022 Study, a PYMNTS and Stripe collaboration, aims to better understand digital platforms' strategic roadmaps for the next three years and the role payments will play in driving their agendas. To this end, PYMNTS surveyed 250 heads of payments representing various sizes and types of business-to-business (B2B) and business-to-consumer (B2C) digital platforms: B2C services marketplaces, B2B SaaS firms, B2C merchant marketplaces, B2C retailers and B2B platforms/utilities.

April 2019

TABLE OF CONTENTS

PAYMENTS 2022

HOW PLATFORMS WILL USE PAYMENTS TO TRANSFORM GLOBAL ECONOMIES

stripe | PYMNTS.com

The Payments 2022 Study was done in collaboration with Stripe, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the findings presented, as well as the methodology and data analysis.

WELCOME TO THE **PLATFORM ECONOMY**

Digital platforms have **changed the world.**

The convergence of mobile devices, data and the cloud over the last decade has created unprecedented sources of value for digital platform stakeholders and the ecosystems they have ignited.

Yet many of those platform providers say that the payments capabilities that have propelled their growth over the last 10 years won't support their plans to innovate and scale over the next. Heightened consumer expectations, combined with the explosion of mobile, new tech and payments innovations over the last 10 years, are creating new opportunities for platforms and their customers that go well beyond just payments acceptance.

In Q1 2019, PYMNTS surveyed 250 heads of payments representing various sizes and types of business-to-business (B2B) and business-to-consumer (B2C) digital platforms: B2C services marketplaces, B2B SaaS firms, B2C merchant marketplaces, B2C retailers and B2B platforms/utilities. Our goal was to better understand their strategic roadmaps for the next three years and the role that payments will play in driving those agendas. This research was done with the support of Stripe.

We learned that payments are a critical enabler and a strategic priority for nearly all of those with whom we spoke, but achieving their goals would be difficult without making important changes to their current payments operations.

Most respondents report that their current payment processing and third-party partners cannot support their plans to expand globally and into new digital and physical channels, or introduce payment methods and features that can help them unlock new business models or payment flows. Thirty percent say their current processing relationships are inhibiting their long-term growth.

We also learned that there is perhaps a much more important driver for their interest in moving beyond the status quo: improving conversions. Only 4 percent of those we surveyed say their ability to convert visitors to sales today is "extremely" good. Chargebacks/dispute resolution (cited by 62 percent) and false-positives (61 percent), they note, are key conversion inhibitors. So, too, are compliance and manual processes, with nearly two-thirds reporting the need to expand their vendor relationships to address compliance-related issues and 44 percent citing the need to reduce manual processes.

The implications seem clear. Payments 2022 for the heads of payments we surveyed includes growing and expanding their payments processing and vendor relationships to mitigate points of friction — and seize the future opportunities that await.

HOW PLATFORMS SEE **THE FUTURE**

The World Economic Forum says the largest digital platforms — from Uber and Airbnb to Amazon and WeChat — have outperformed the S&P over the last decade. Just five years from now, these platforms, and the many others that have emerged, are expected to collectively account for $60 trillion in revenue. That's roughly 30 percent of all global corporate revenue from a segment of the economy that didn't even exist 30 years ago.[1]

The reasons for that growth are as obvious as they are astounding.

There are 5.1 billion unique mobile phone users worldwide, and 4.3 billion connect to the internet via their devices.[2] Each spends an average of three hours and 35 minutes on their mobiles daily, engaging with platforms by sharing content, communicating with others, discovering products and services, making purchases and playing games.[3]

Fundamentally, without payments as an integrated element of many platform experiences, there would be very little — or even no — value generated for those stakeholders or the platforms themselves.

Payments remove the friction associated with transacting on digital platforms: Uber without the invisible payment experience is just another taxi ser-

[1] Platforms and ecosystems. World Economic Forum. 2019. https://www.weforum.org/projects/platforms-and-ecosystems-enabling-the-digital-economy. Accessed April 2019.

[2] Tobin, A. 5G will account for 15 percent of global mobile market by 2025. Forbes. 2019. https://www.forbes.com/sites/annatobin/2019/02/25/15-of-global-mobile-industry-to-run-on-5g-by-2025/#7a15a6022f9a. Accessed April 2019.

[3] Wurmser, Y. Mobile time spent 2018: Will smartphones remain ascendant? eMarketer. 2018. https://www.emarketer.com/content/mobile-time-spent-2018. Accessed April 2019.

vice, for example, and WeChat is just another social network without the ability to use WeChat Pay to buy things both inside its digital ecosystem as well as in the physical world.

The digitization of payments provides a monetization opportunity and new business models pivotal to sustaining and scaling the growth of these platforms, too. Once strictly ad-supported, platforms like Facebook and Instagram are now integrating payments into their platforms to capture purchases, in context, based on what consumers see or read there.

All digital platforms naturally see this opportunity — as well as the strategic importance of payments — in meeting their users' demands and growing their businesses. In fact, 94 percent of those we studied see a future defined by expansion, with payments playing a critical role in enabling it.

PLATFORMS GO GLOBAL AND INTO NEW CHANNELS

Global expansion is a big part of the digital platform growth story. This is true not only in the United States, but also in North America, the European Union, the United Kingdom, Mexico and Australia, where the platforms we studied say they plan to both expand and plant their flags in significant ways. For example, roughly 15 percent of those we studied report having a presence in Mexico today, but 58 percent plan to have a large presence there within the next three years.

Global demand for the products and services offered by these platforms is whetting this appetite, with 68 percent citing it as a reason for their expansions and 54 percent identifying it as the most important one for doing so.

There is another area of growth that these platforms see on the horizon, and that is the opportunity to expand the digital and physical channels into which they acquire and/or service their customers. Our research shows that 82 percent of digital platforms intend to add at least one more digital channel to reach their customers, and 57 percent of the companies in our sample say they will expand the number of storefront locations they offer. This is especially true of B2C retailers, with almost 81 percent indicating they intend to do so.

Platforms also see the future potential of voice as a commerce enabler, with plans to bring it into their platforms over the next three years. Approximately 75 percent of those surveyed report that they intend to integrate voice into their platforms, up from the 15 percent that currently offer such options today.

CRACKING THE PLATFORM **CONVERSION CONUNDRUM**

Not surprisingly, the platforms we surveyed place a high priority on the payments capabilities that will improve conversions. That includes adding new payment methods, digital wallets and domestic currencies to support global expansion, with two-thirds reporting these as strategic areas of focus. Adding recurring billing and subscription options (63 percent) and instant card issuing (62 percent) are also key priorities.

Topping the charts, though, is the integration of real-time/faster payments, with 75 percent indicating it as their highest priority over the next three years.

THE **THREE-YEAR PLAN**

Given how important payments are to digital platforms' growth and sustainability, it is not surprising that 98 percent of payments leaders in our survey view the organizations they manage as strategic enablers to that growth.

Most also say that the payments systems they have in place today — and that helped them achieve critical mass and scale — won't support what their CEOs and boards expect of their operations in the future.

More than 60 percent of the payments heads with whom we spoke report a need to expand their current processing relationships to deliver their three-year roadmaps. Further, 30 percent even went as far as to say that their current processing relationships were an obstacle to their growth plans.

The need to enhance what exists is correlated with our finding that nearly all (96 percent) of our respondents say they could be better, much better, at converting visitors to sales. Chargebacks, false-positives and manual reporting and reconciliation were cited as obstacles to that performance and to growing their top lines.

Even more staggering is that only 1 percent of respondents say their fraud detection capabilities are "extremely" effective. Sixty-three percent report that their revised Payment Services Directive (PSD2) and strong customer authentication (SCA) compliance were only "somewhat" so, representing obvious pain points as they contemplate global expansion and compliance with regulations taking effect in September 2019.

THE RISE OF PAYMENTS PM: MANAGING PAYMENTS AS A PRODUCT

Supporting the expansion of what these heads of payments describe as "multiprocessor, multivendor payments organizations" also means expanding the sizes of the teams that support those relationships. Today, those teams average six to 10 people to support the roughly three processing relationships they maintain, on average, as well as the two or more vendor relationships in place to support functions like fraud and chargebacks. Sixty-seven percent use outside vendors for compliance and monitoring, and 53 percent use them to help with fraud detection and monitoring.

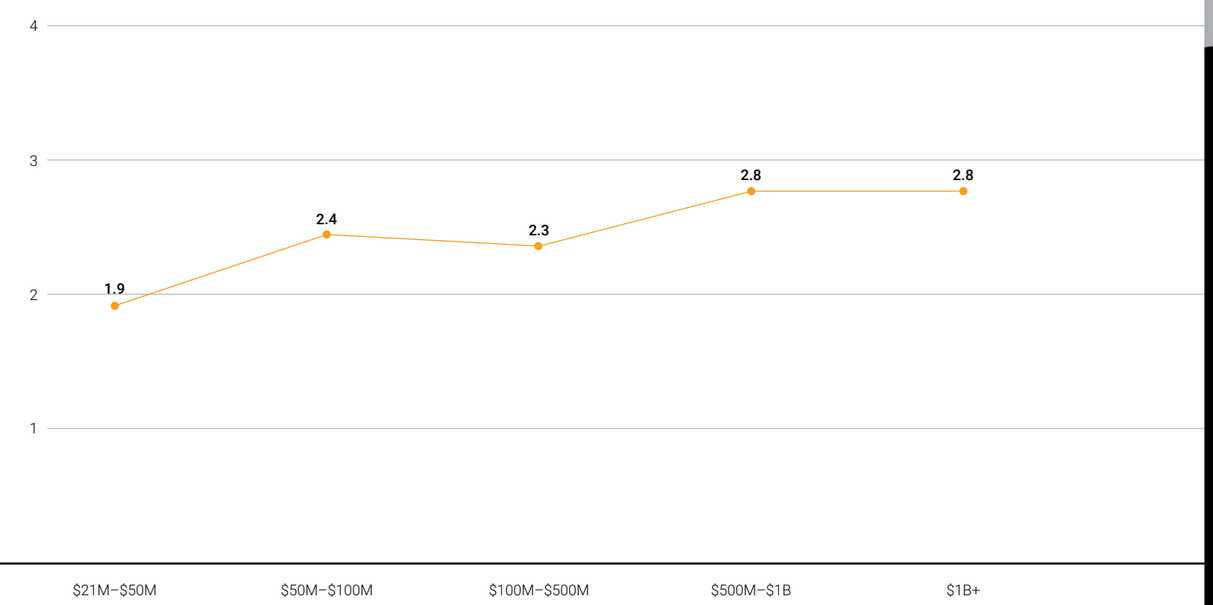
The cost of supporting these payments operations averages 2.7 percent of sales. Smaller firms tend to have higher costs, and the smallest of those we surveyed — those earning between $21 million and $50 million in revenues — report their cost of payments, all in, as 3.3 percent of sales.

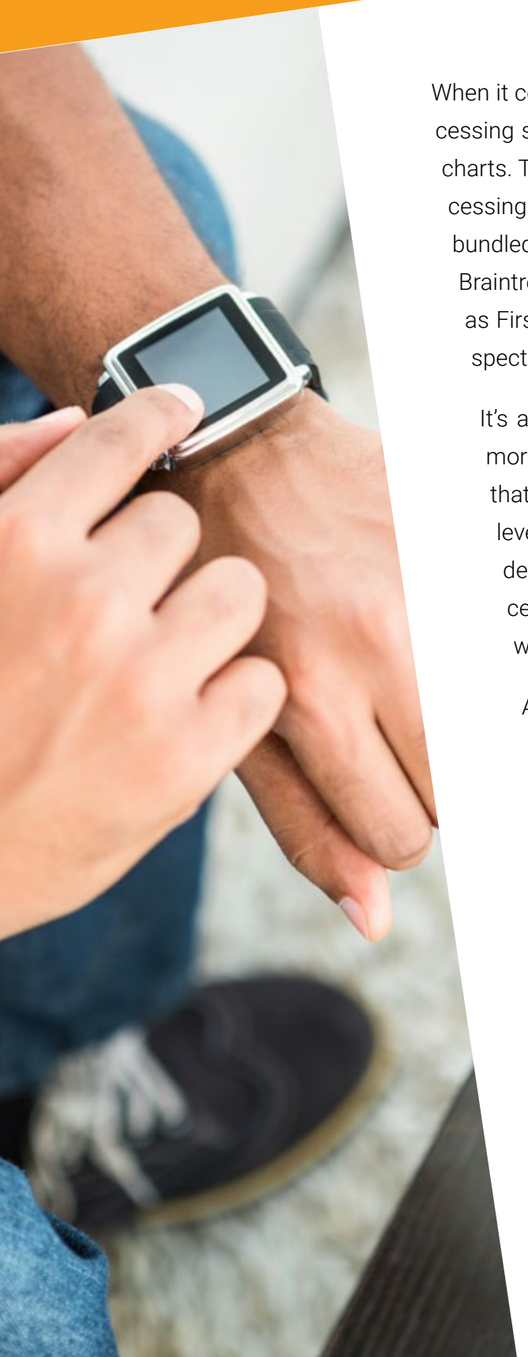
Looking ahead, 41 percent report the need to expand their payments teams to support their growth and manage the additional vendor relationships required to improve their performance. Additional firepower, they report, is required to address risk and fraud (67 percent), operations and reporting (79 percent) and compliance (46 percent).

FIGURE 1:

Digital platforms' reliance on payments processors

Average number of payments processing partners, by annual revenue





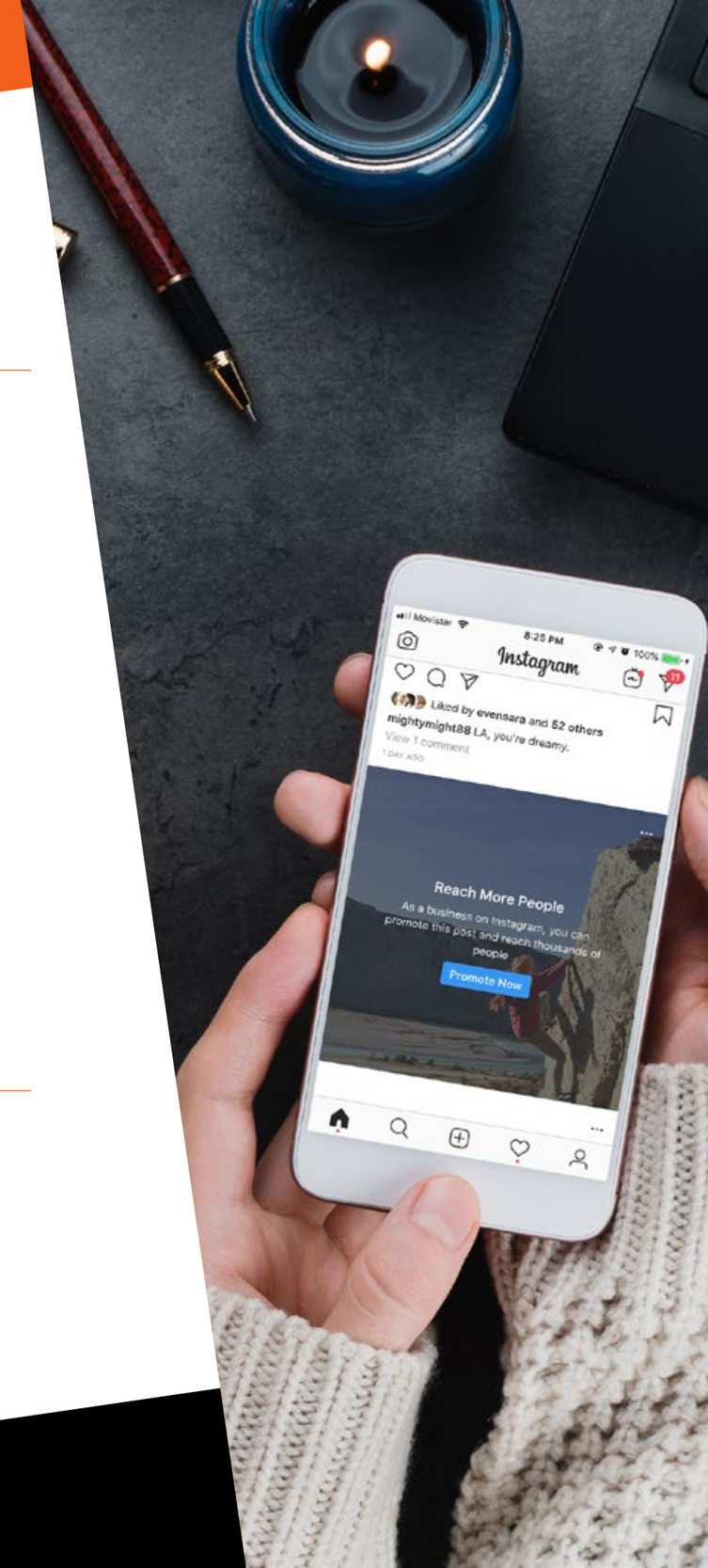
When it comes to where digital platforms turn to provide their payments processing services, it's not surprising to see digital-first platforms topping the charts. The ability to get up and running quickly via easy integrations to processing platforms offering a variety of payments acceptance options and bundled services is why PayPal is being used by 82 percent of respondents, Braintree by 16 percent and Stripe by 47 percent. Legacy platforms such as First Data and Worldpay are used by only 8 percent and 3 percent, respectively.

It's also not surprising that these same heads of payments now want more and flag a need to expand beyond the services and capabilities that they have today to ones that will take their platforms to the next level of growth and profitability. Fewer than 10 percent of all respondents cite an interest in switching payments processors, but 61 percent report an interest in expanding their relationships beyond that which they have today.

A decade into the age of digital platforms, it's clear that payments have become the engine of their growth. Similar to how a product manager would roadmap the development of a product, we are seeing a similar ideology take hold in payments. Increasingly, companies are making payments a competitive differentiator. By building creative payment experiences, they generate new revenue streams for their businesses — whether it's fostering loyalty by adding subscription services or building hybrid business models that combine eCommerce with marketplace-like features.

Based on the responses from the 250 heads of payments we studied, Payments 2022 for these platforms will be to move beyond acceptance to the application of payments as strategic enablers of growth, disruption and transformation.

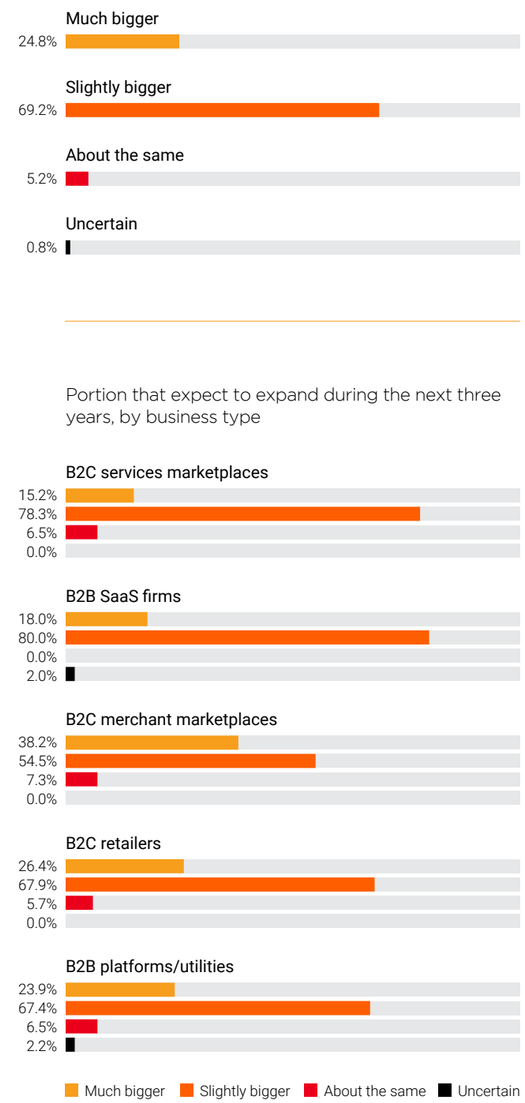
61%
of platforms
intend to **expand their payments processor/vendor relationships**
in the next
three years
beyond what
they have today.



THE ROAD TO PAYMENTS 2022

FIGURE 2:

Digital platforms' three-year growth plans
Share that expect to grow during the next three years, by amount



Digital platforms have big expansion plans, and all of those we surveyed view payments as critical catalysts to those efforts. As seen in Figure 2, 94 percent of these marketplaces expect to grow by 2022, with 25 percent of those platforms expecting to be much bigger than they are now. It is safe to say most are optimistic about their futures.

Among the five digital platform types featured in our study, B2C merchant marketplaces — which allow third-party vendors to sell to end customers — are the most optimistic about their growth prospects. Thirty-eight percent of these platforms, such as Etsy, eBay, Airbnb and HotelTonight, among others, believe they'll be "much bigger" by 2022. That compares to our sample's average of 25 percent.

Interestingly, the segment that is the most measured about its growth prospects is B2C services marketplaces, a category which might include such platforms as Uber, Lyft and TaskRabbit. As global platforms, these businesses are hyperlocal in terms of their delivery. Each faces the challenge of building critical mass on both sides in those platforms, in those local markets and in the face of hyper-competitive conditions which may mute their growth expectations over the next three years. In any case, these and other platforms' overriding visions remain focused on growth.

GOING GLOBAL:
INTERNATIONAL EXPANSION OBJECTIVES AND PLANS

94%
of digital platforms intend to **expand into new geographical locations** within the next three years.

A defining characteristic of digital platforms is that they are readily exportable and scalable in new markets. The internet has made geographic boundaries less relevant than ever, and it therefore comes as little surprise that many marketplaces have healthy appetites for global expansion — or that many view payments as their passport.

Ninety-four percent of our study's digital platforms aim to expand their worldwide reach over the next three years, especially in markets close to home. U.S.-based firms are eyeing Canada's established markets, where 81 percent say they plan to expand. The Eurozone (cited by 67 percent) also remains a top priority.

Many are looking to emerging and more distant markets, too, such as those in Latin America and Southeast Asia that offer particularly exciting digital-first opportunities. While only 15 percent of firms are currently operating in Mexico, 58 percent foresee opening operations there within three years.

Singapore and India are also regarded as key future growth spots, with 40 percent of platforms planning to expand to the latter and 29 percent to the former.

TABLE 1:

Countries platforms are targeting for expansion
Portion of those that plan to open or expand operations in select regions

	Currently in this region with plans to expand	Currently in this region with no plans to expand	Not currently in this region but need to add	Not currently in this region and will not add
United States	84.4%	12.8%	2.8%	0.0%
Canada	31.2%	12.0%	49.6%	7.2%
Eurozone	38.8%	12.4%	28.4%	20.4%
Mexico	4.8%	10.0%	58.0%	27.2%
Australia/New Zealand	24.4%	7.2%	38.0%	30.4%
Great Britain	34.8%	16.8%	26.8%	21.6%
Singapore	6.0%	7.2%	40.4%	46.4%
India	14.0%	7.2%	28.8%	50.0%
Brazil	4.4%	13.2%	36.8%	45.6%
South America (exc. BRZ)	2.4%	9.2%	31.6%	56.8%
Latin America (exc. MEX)	1.2%	9.6%	32.0%	57.2%
China	11.6%	7.6%	20.4%	60.4%
Indonesia	1.6%	5.6%	19.2%	73.6%
Middle East	3.2%	14.8%	17.2%	64.8%
South Africa	2.0%	4.8%	14.0%	79.2%
Thailand	0.4%	6.0%	15.6%	78.0%

ADDING NEW DIGITAL CHANNELS

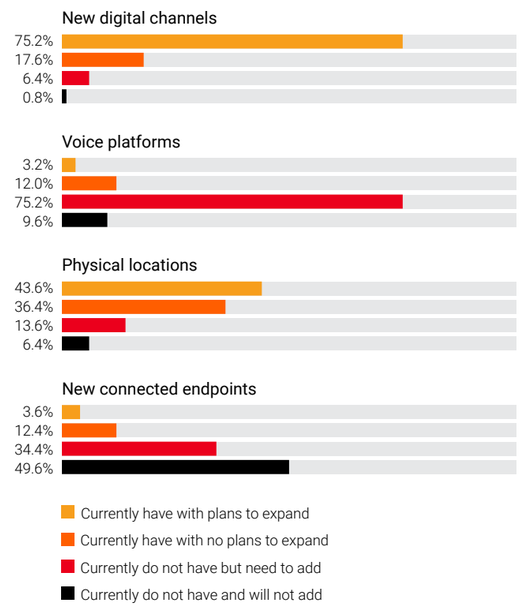
Most platforms view extending their digital footprints as equally or even more important than offline expansions into brick-and-mortar locations. Roughly 82 percent see themselves expanding or adding digital options, such as new social media or digital marketplace presences, during the next three years, while 80 percent already have storefront presences and 57 percent plan to expand or add them.

One channel stands out as especially ripe: voice-recognition technology, including popularized digital assistants like Amazon's Alexa and Google Assistant. Approximately 75 percent of firms plan to implement such offerings, representing a dramatic increase from the 15 percent that currently support voice-enabled commerce.

FIGURE 3:

Digital platforms' forecasts for digital and physical expansion

Portion that foresee growth by 2022, by expansion area



EXPANDING PAYMENTS CAPABILITIES

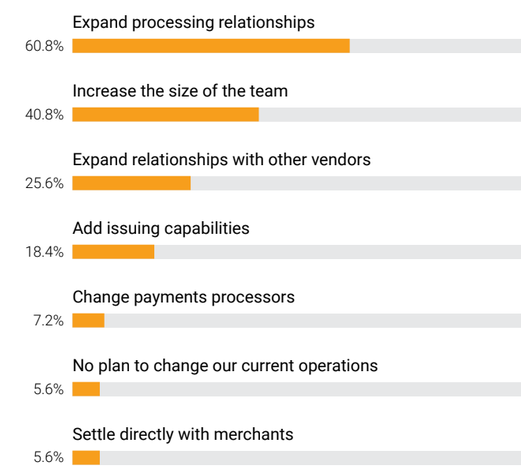
Regardless of how or where firms believe they will expand, a key component of those plans is the need to enhance current processing capabilities and vendor relationships to support that expansion.

Sixty-one percent of the platforms we studied say they have plans to add more payments processing platforms to the mix in the near future, 41 percent plan on adding more team members to their internal teams and another 26 percent plan to expand their relationships with third-party vendors with particular payments expertise.

FIGURE 4:

How digital platforms plan to enhance their payments operations

Firms' strategies for enhancing their processes



For some segments, expanding processing relationships is a particularly high priority, while others are comparatively more focused on bringing people on board the teams that support payments. Sixty-eight percent of B2B software-as-a-service (SaaS) platforms — platforms such as Slack and Tableau — report a higher priority on expanding processing relationships. Very few of them express an interest in bringing payments entirely in-house and settling funds directly with merchants on their platforms.

The relationship between payments capabilities and platform expansion is more than theoretical. When asked, most firms state point-blank that they want to expand their processing and payments capabilities because they must. In fact, more than half of the platforms we studied say that they plan on adding additional payments processors to expand into new geographical locations.

Firms' cited reasons for adding new capabilities

Only respondents with plans to add processing

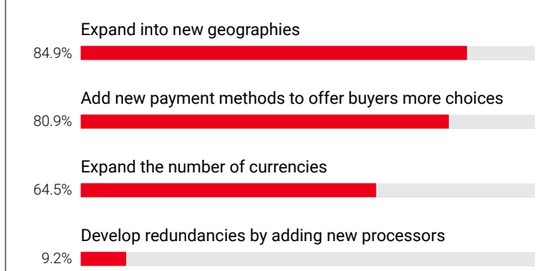


TABLE 2:

How digital platforms plan to enhance their payments operations
Different strategies for enhancing payments, by segment

	B2C services marketplaces	B2B SaaS firms	B2C merchant marketplaces	B2C retailers	B2B platforms/utilities
Expand processing relationships	56.5%	68.0%	54.5%	64.2%	60.9%
Increase the size of the team	34.8%	42.0%	36.4%	39.6%	52.2%
Expand relationships with other vendors	28.3%	22.0%	30.9%	22.6%	23.9%
Add issuing capabilities	15.2%	12.0%	27.3%	18.9%	17.4%
Change payments processors	6.5%	6.0%	9.1%	3.8%	10.9%
Settle directly with merchants	10.9%	6.0%	7.3%	1.9%	2.2%
No plans to change current operations	2.2%	6.0%	9.1%	9.4%	0.0%

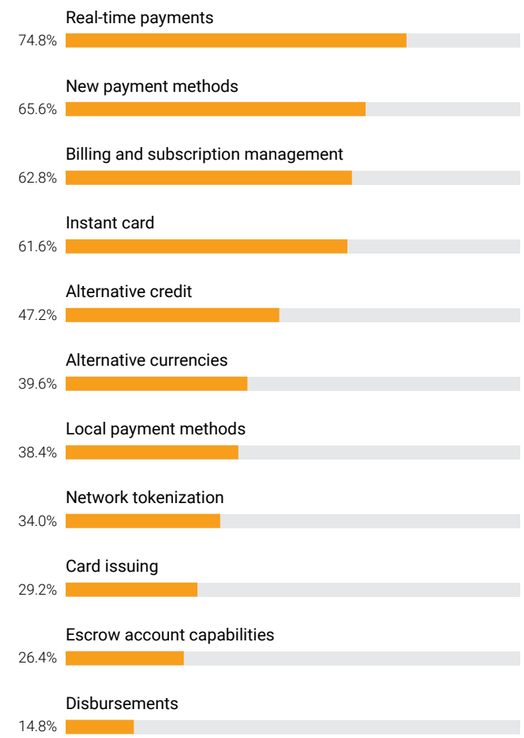
68%
of B2B SaaS platforms intend to **expand their processing relationships** over the next three years.

Yet, expanding into new geographical locations means competing against all-new overseas competitors on their home turf, and working to grab the attention of a whole new batch of consumers who often have very different expectations from those situated in the U.S. To be successful in their global expansion efforts, platforms must therefore invest in the payments capabilities that will appeal to consumers in local markets.

Several priorities top the agenda, starting with real-time payments, which is cited by three-quarters of payments heads as a feature they would need to implement to further their expansion plans. After real-time payments, the most-commonly cited features needed to promote expansion were greater acceptance of electronic benefits transfer (EBT) and digital wallet offerings (66 percent), better billing and subscription management processes (63 percent) and instant issuance and provisioning of cards (62 percent).

FIGURE 5:

Payments processes all firms require for expansion
Share that view select features as necessary for growth



75%
of firms say **implementing real-time payments capabilities** is necessary for expansion.

THE PLATFORM **EXPANSION M.O.**

54%
of firms plan to
expand to meet global demand
for their services.

Digital platforms differ regarding where and how they expect to expand, but their reasons for wanting to do so are remarkably similar: They see market demands for their products and want to seize them. Sixty-eight percent of firms cite this as a factor in their international expansion decisions, and 54 percent indicate it is their primary motivator.

Other oft-cited global growth motivators include meeting licensing and regulatory requirements (71 percent), meeting worldwide demand (68 percent), favorable tax mitigation options (62 percent) and managing financial risk (50 percent).

TABLE 3:

Factors for firms considering going global
Factors firms weigh when expanding to foreign markets, by rank of importance

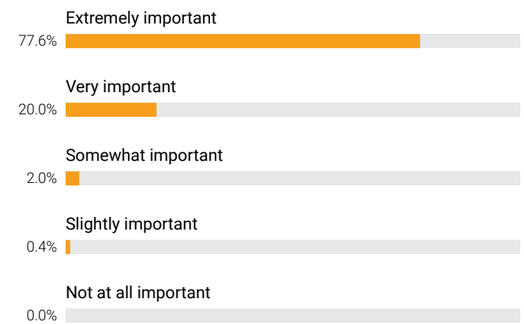
	Most important						Least important	
	1	2	3	4	5	6	7	TOTAL
Meeting licensing/regulatory requirements	15.2%	41.2%	11.6%	2.0%	0.8%	0.0%	0.0%	**70.8%**
Meeting global demand for products/services	53.6%	7.6%	4.0%	1.6%	0.4%	0.0%	0.8%	**68.0%**
Tax mitigation using local systems	9.2%	15.6%	21.6%	12.4%	2.0%	0.4%	0.0%	**61.2%**
Managing financial risk	4.8%	5.2%	16.0%	16.4%	5.6%	0.8%	0.8%	**49.6%**
Being able to compete well against local competitors	6.0%	11.2%	8.8%	4.4%	0.4%	1.6%	0.0%	**32.4%**
Finding a processing partner	1.6%	4.0%	7.6%	2.4%	0.8%	0.8%	0.0%	**17.2%**
Finding a bank sponsor	3.2%	2.8%	3.6%	2.4%	0.8%	0.4%	0.4%	**13.6%**
No global expansion plans	6.4%	2.4%	0.0%	0.4%	0.0%	0.0%	0.0%	**9.2%**

PAYMENTS AS A CENTRAL GROWTH ENABLER

For digital platforms, in particular, payments have evolved from a cog in the machinery to the linchpin of strategic growth. Nearly all digital platform providers in our study (98 percent) say their payments operations are either "very" or "extremely" important components in meeting their expansion plans and executing their three-year roadmaps.

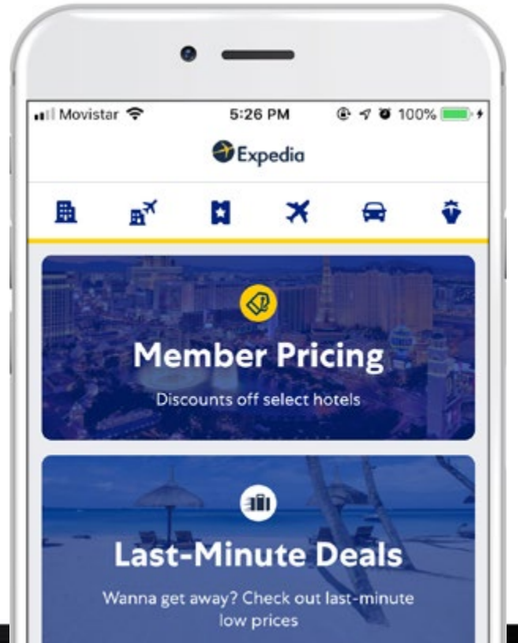
FIGURE 6:

Payments systems' importance to platforms' strategic growth
Portion citing various levels of importance for their payments capabilities



Payments' significance looms especially large for the smaller firms in our survey. They are almost universally regarded as "extremely" important among those generating between $21 million and $50 million in annual revenues, with 86 percent of these companies indicating so compared to the 74 percent cited by those earning more than $1 billion.

98% of platforms say **their payments operations are "very" or "extremely" important** to their broader expansion strategies.



The flip side of this outlook is that lacking payments options or implementing the wrong ones can inhibit growth — and digital platforms know this. Thirty percent of those we studied report that their current processing relationships are the greatest impediments to their success. They indicate that they affect them more than data security and cross-border payments, flagged by 19 percent and 11 percent of respondents, respectively.

Understanding the ground-level implications of having inefficient payments processing systems is also important. The customers of platforms with inefficient services often have a hard time completing their purchases. These marketplaces may not support their users' preferred methods, or customers may find it too difficult to pay via the offered options.

FIGURE 7:

The importance of payment systems to strategic growth
Share that consider payments important to their growth plans, by firm size

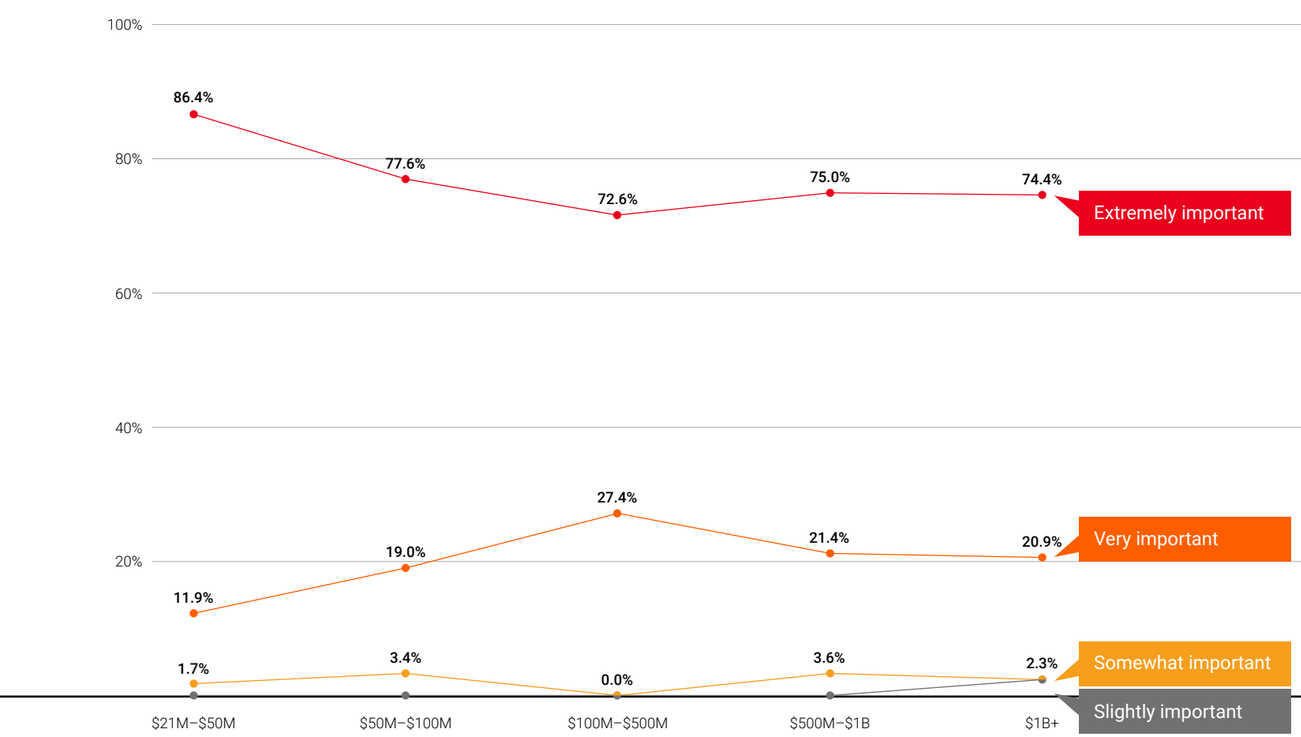
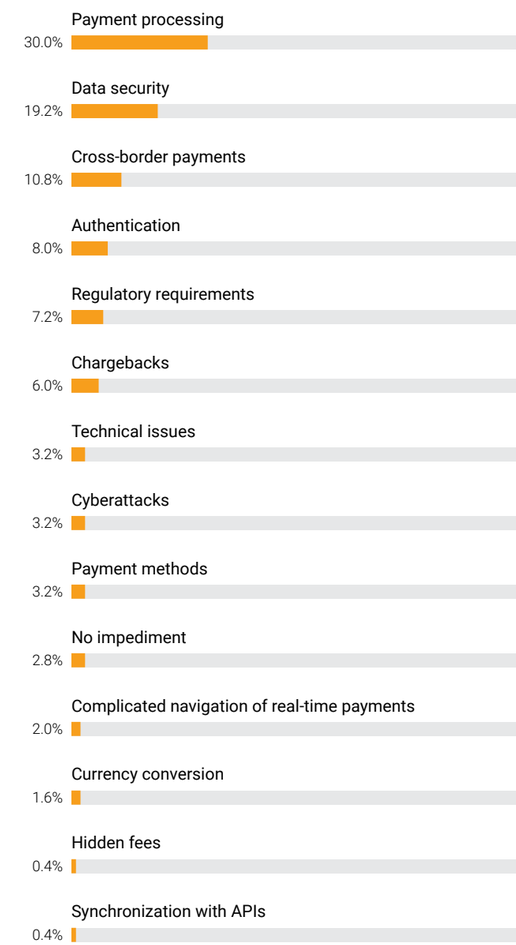
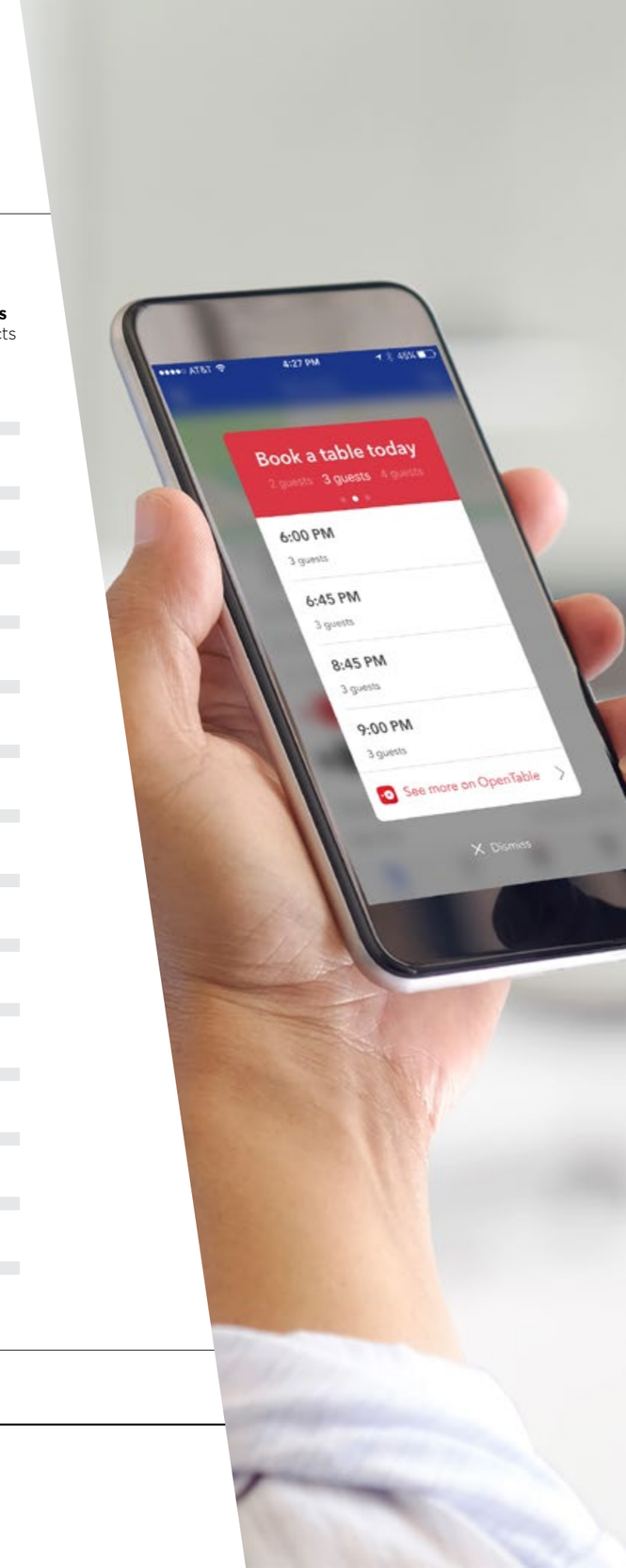


FIGURE 8:

Digital platforms' greatest impediments to success
Portion that consider select payment process aspects as hurdles



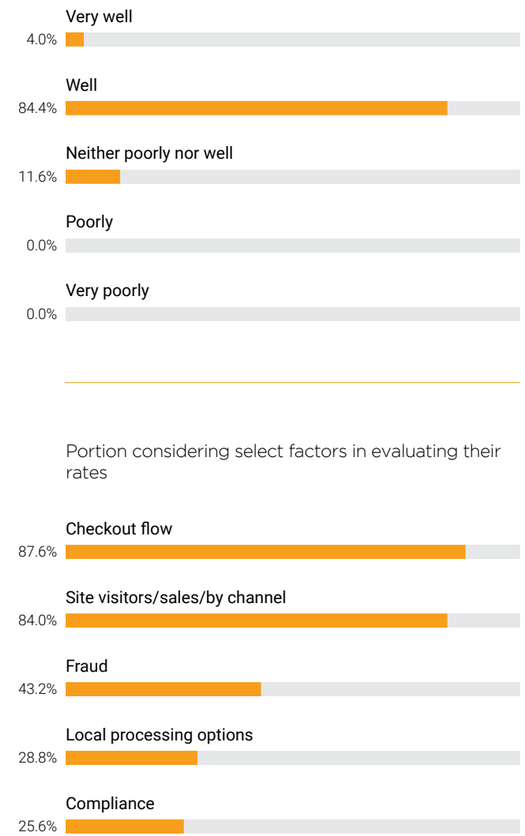


THE ELEPHANT IN THE ROOM: HOW TO IMPROVE CONVERSION RATES

FIGURE 9:

How digital platforms view their transaction conversion performances

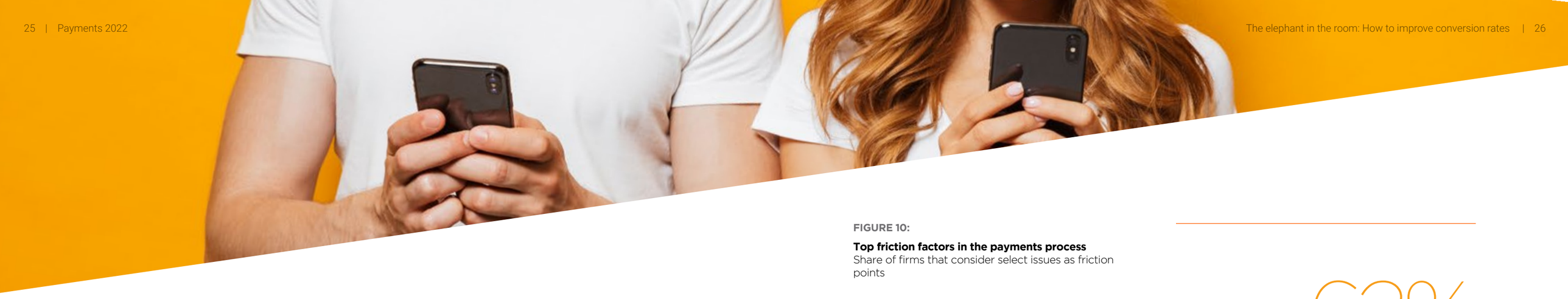
Share indicating select levels of success in doing so



Conversion is the lifeblood of any business and, for many digital businesses, often a struggle. Consumers' expectations of frictionless digital experiences — including checkout — have been set by Amazon with its one-click checkout and diverse array of products. Digital platforms, whatever their product or service, strive to replicate that experience while mitigating the fraud risks that are endemic to these online experiences. It is a delicate balancing act, one that gets a big assist from new tech that removes authentication and checkout frictions.

It says something that only 4 percent of our respondents report doing "very well" here. That leaves substantial room for improvement, and suggests a massive opportunity to be gained by optimizing the payments process to improve conversions. Eighty-four percent report converting transactions "well," something that one might optimistically interpret as faint praise for the performance of their payment platforms.

Our study defines conversion as converting visits on a digital platform into sales, including the management of fraud and disputes and the associated authentication or regulatory requirements of that process. A closer examination of the specific payments frictions affecting conversion reveals firms struggle the most with chargebacks and dispute resolution. Sixty-two percent cite this as a problem, followed closely by false-positives (61 percent).



Approximately 32 percent of firms consider false-positives their biggest operational pain points. Another major area of concern is the need for manual intervention in payments processes, with 44 percent identifying it as such and 26 percent stating it is their biggest pain point.

These various payments inefficiencies can add up to produce high, but avoidable, hidden costs. To understand just how they add up — and how to fix them — we must examine how platforms measure the cost of processing and supporting payments.

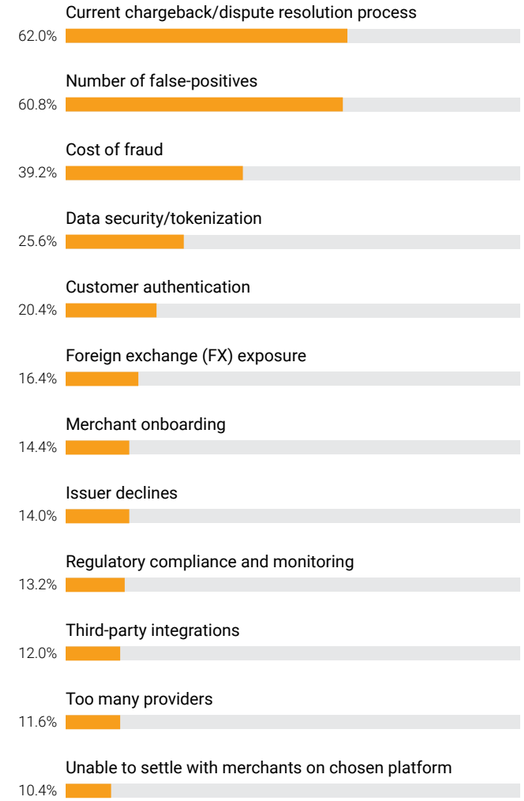
TABLE 4:

Top payments operational pain points
Portion of firms that consider select issues as pain points, by rank

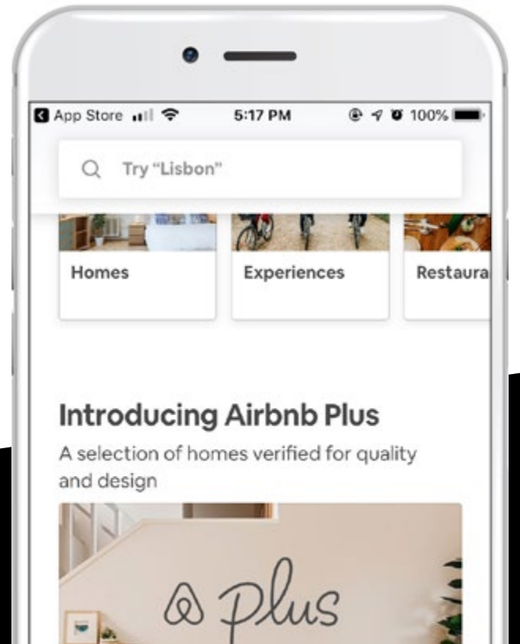
	1	2	3	4	TOTAL
Too many exceptions that require manual intervention	26.4%	14.4%	3.6%	0.0%	**44.4%**
Decline too many good customers	32.0%	5.2%	1.6%	1.2%	**40.0%**
Reporting and reconciliation processes are cumbersome	14.0%	8.0%	1.2%	0.0%	**23.2%**
Takes too long to get new features into the market	9.6%	10.0%	2.0%	0.8%	**22.4%**
Checkout process is not optimized for for easy checkout	8.0%	7.6%	1.2%	0.8%	**17.6%**
Can't settle transactions for merchants on our platform	8.2%	4.0%	0.4%	0.4%	**8.0%**
Too complicated to manage multiple vendor relationships	2.8%	3.2%	1.6%	0.0%	**7.6%**
Providers are unable to serve our needs	1.6%	2.0%	1.6%	0.0%	**5.2%**
Lose too much money in fraud	2.4%	1.2%	0.4%	0.0%	**4.0%**

FIGURE 10:

Top friction factors in the payments process
Share of firms that consider select issues as friction points



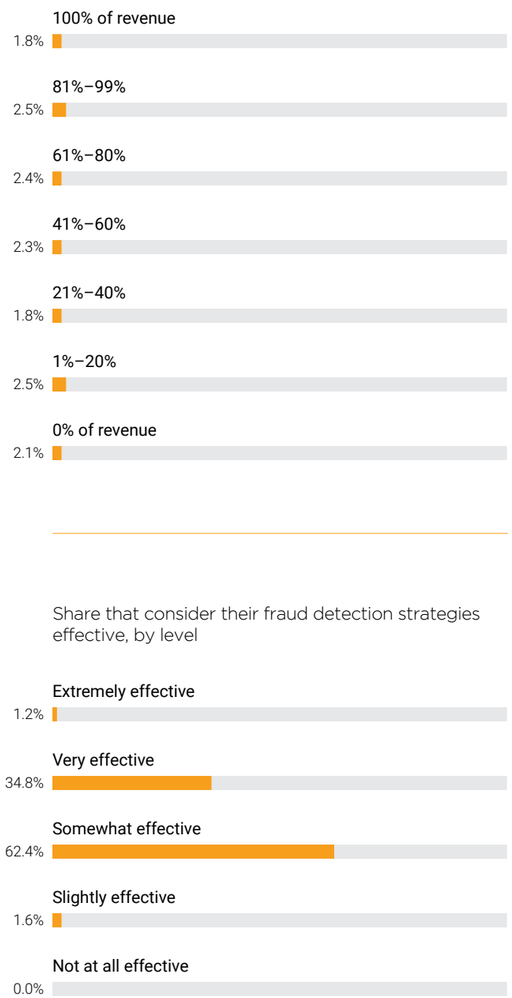
62% of firms cite **chargeback/dispute resolution** as an operational pain point.



THE TRUE COST OF **FRAUD**

FIGURE 11:

The cost of fraud and the fight to curb it
How much fraud costs digital platforms, according to the portion of revenue generated outside the U.S.



It is clear why many firms see payments-related fraud as their biggest growth hindrance. In addition to attacking margins, detection systems have the potential to turn away legitimate customers. Just 36 percent of platforms feel their fraud detection operations are "very" to "extremely" effective, and just 1 percent regard them as "extremely" effective. While 40 percent of respondents report that fraud costs are somewhat lower this year than last, most surveyed leaders believe there is definitely room for improvement.

The cost of fraud, they report, is roughly 2.2 percent of annual revenues on average. Those earning between $500 million and $1 billion annually pin the figure at 2.8 percent, something on the order of between $14 million to $28 million a year for each of those platforms.

The need for manual review and processing (cited by 44 percent) and false-positives (40 percent) are reported to be trouble spots. On the latter, the cost of turning away good customers may pose incalculable, possibly unrecoverable costs.

A related fraud challenge is chargebacks and dispute resolution, a process that not only results in canceled sales but can also be a drain on time and money. Chargebacks are what the greatest portion of platforms struggle with, and 62 percent cite it as a key friction point.

THE RISING COMPLEXITY (AND COST) OF **MANAGING COMPLIANCE**

63% of firms say they are only "somewhat" effective at **complying with PSD2/SCA.**

Managing compliance also remains a significant hurdle, especially as regulations shift amid technological innovations, heightened fraud and money laundering concerns. This is illustrated by the fact that just 21 percent and 19 percent of firms consider their current payment systems "extremely" effective at complying with know-your-customer (KYC) and anti-money laundering (AML) regulations, respectively. Moreover, 63 percent of digital platforms report that their systems are only "somewhat" effective in addressing PSD2 and its associated SCA requirements, as these new European regulations shake up the banking industry and its clients.

TABLE 5:

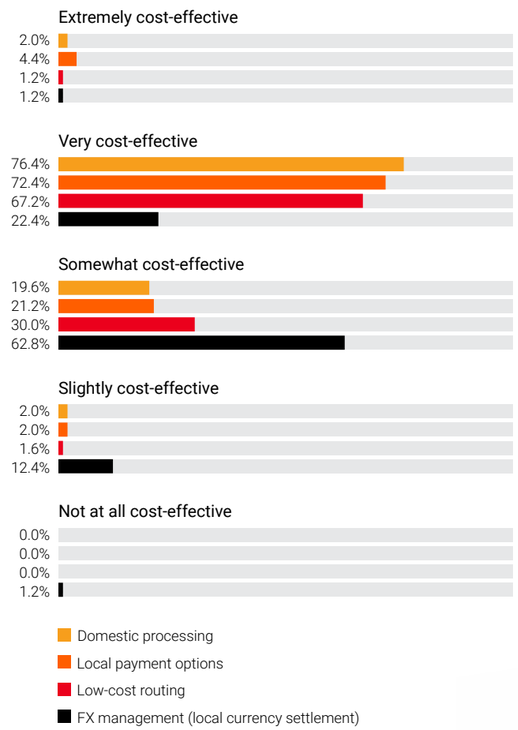
Current payments operations' effectiveness in complying with regulations
Portion that consider operations to be effective in dealing with select regulatory systems

	Not at all effective	Slightly effective	Somewhat effective	Very effective	Extremely effective
Anti-money laundering (AML)	0.0%	0.0%	9.2%	71.9%	18.9%
Local regulatory requirements	0.0%	0.4%	10.0%	68.7%	20.9%
Know-your-customer (KYC)	0.0%	1.6%	9.6%	67.6%	21.2%
Money transmission	0.0%	2.0%	12.4%	70.3%	15.3%
General Data Protection Regulation (GDPR)	5.0%	1.4%	11.4%	44.3%	37.9%
PSD2/SCA (Strong customer authentication)	0.7%	0.7%	62.7%	14.8%	21.1%

SOMEWHAT COST-EFFECTIVE **CROSS-BORDER PAYMENTS**

FIGURE 12:

Platforms' effectiveness at accommodating local and foreign payment types
Share that consider their handling of different payment types to be cost-effective



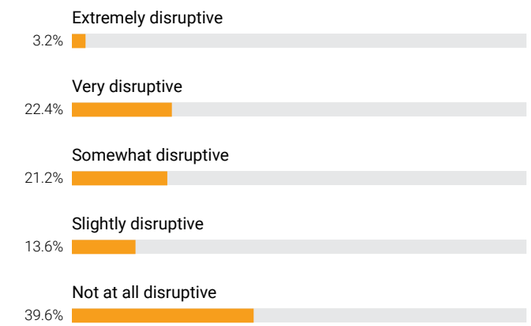
Digital platforms face less conspicuous — but no less vexing — challenges in optimizing their payment systems as they plot their three-year roadmaps. This is especially true regarding global expansion. Chief among their concerns in this realm is foreign-exchange (FX) management, as operating internationally requires accommodating a range of currencies with fluctuating values. Yet only 24 percent of firms consider their FX management strategies to be "very" or "extremely" cost-effective, while the lion's share (63 percent) view it as only "somewhat" so.

It's worth examining Brexit's impact on cross-border commerce, particularly in Europe. While England's possible exit from the EU is a major concern for some digital platforms, the largest share are largely unperturbed. Approximately 40 percent say the measure is "not at all" disruptive, while 26 percent say it is "very" or "extremely" so.

63% of platforms say **their payment systems are only "somewhat" cost-effective** when it comes to FX management.

FIGURE 13:

The Brexit effect
Portion that believe Brexit would have a disruptive effect on payments operations, by level



VENDORS, VENDORS AND MORE VENDORS: ARE BIGGER TEAMS ALWAYS BETTER?

The digital platforms we surveyed currently employ an average of six to 10 people to support payments functions across an average of 2.7 processing relationships that enable roughly six payment methods. This figure is slightly greater for larger firms and those that receive more than half of their revenues from outside the U.S.

In addition, 80 percent of platforms have two or more vendor relationships to help manage chargebacks (73 percent), compliance and monitoring (67 percent) and fraud detection and monitoring (53 percent).

80% of platforms have **two or more vendor relationships** to help manage chargebacks.

FIGURE 16:

Digital platforms' reliance on payments processors

Average number of payments processing partners, by annual revenue

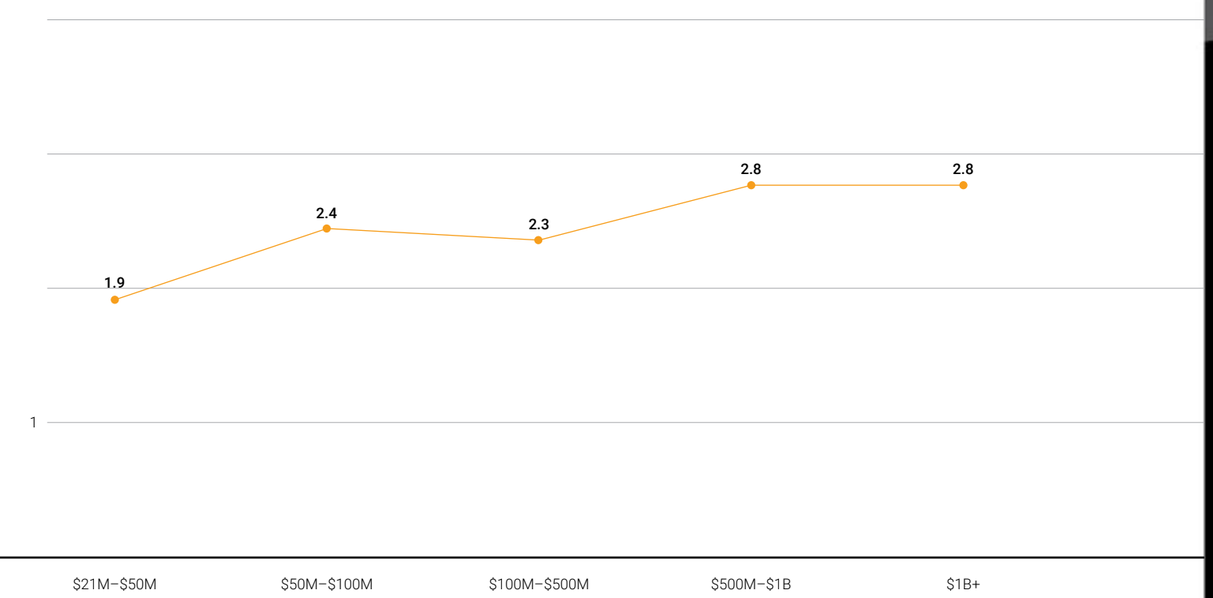
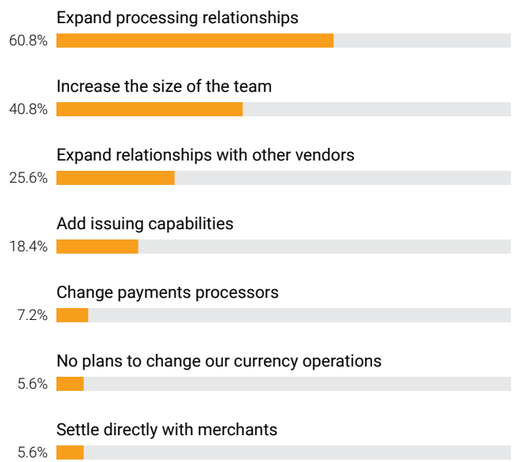


FIGURE 17:

Plans for enhancing current payments operations
Share planning to pursue select strategies to support their product roadmaps

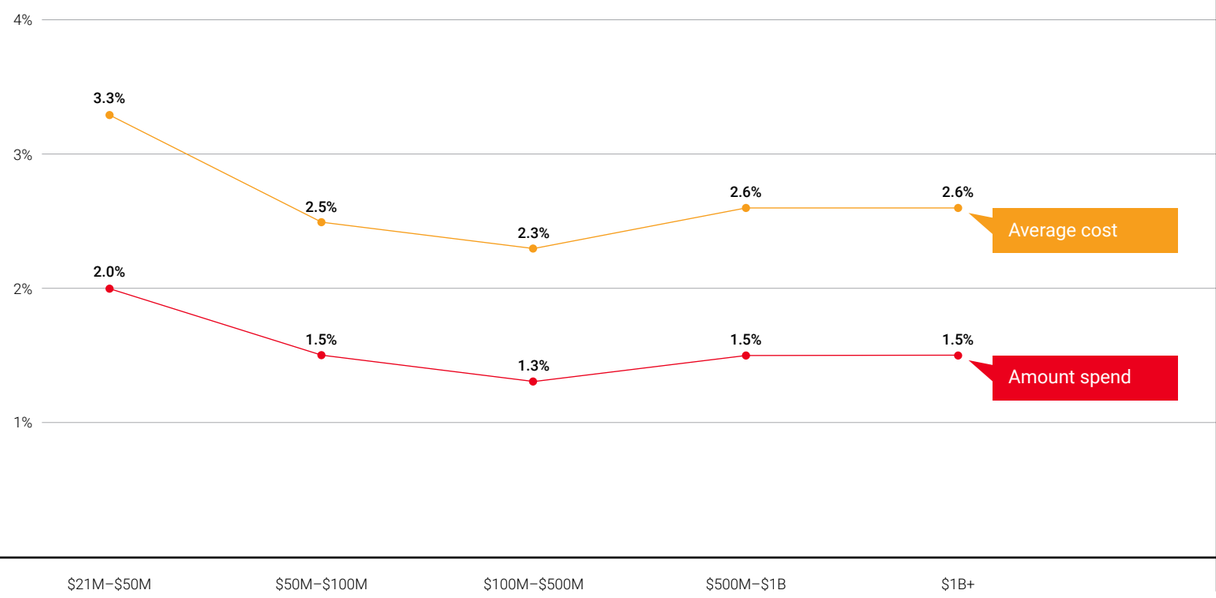


Companies estimate that the costs associated with payments processing represent approximately 2.7 percent of their annual revenues, on average. Smaller firms earning between $21 million and $50 million annually pay roughly 3.3 percent, while those operating globally — which 94 percent of those surveyed indicate doing — report payment processing fees that approximate to 3 percent.

A central thrust of platforms' strategies to improve their payments operations is to expand their vendor and processing relationships. About six in 10 (61 percent) say they must do so to meet their three-year growth goals.

FIGURE 18:

The cost of managing payments processing relationships
Average cost and costs for payments overall and for processing as percentage of revenue and total cost, by size



Of the companies that intend to expand their processing relationships, 85 percent say they need to do so to expand geographically, 81 percent to accept new payment methods and 65 percent to expand the number of currencies they support.

In addition, 26 percent of platforms report a need to add more vendor relationships beyond the two they currently manage to address chargebacks and dispute resolution (63 percent), fraud detection and monitoring (53 percent) and compliance and monitoring (53 percent).

Supporting digital platforms' multiprocessor, multivendor payments organizations also requires adding members to their teams, and 41 percent of all surveyed firms intend to add personnel to their existing groups.

FIGURE 19:

Support provided by vendors
Share that use third-party services for select processes

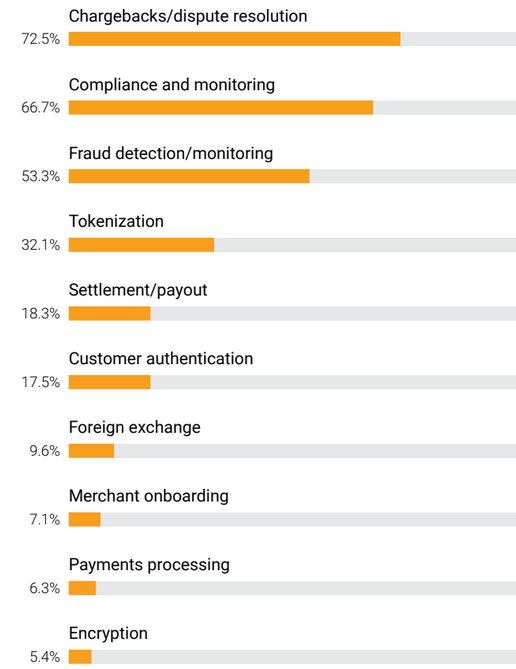
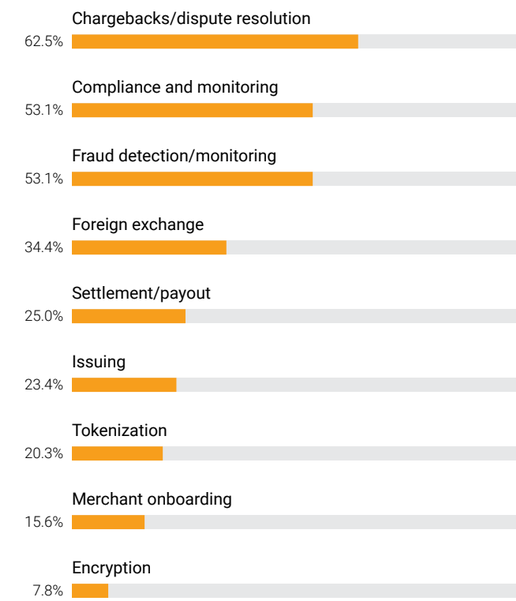


FIGURE 20:

Areas in which digital platforms hope to expand with vendor support
Portion planning to expand vendor relationships that seek to improve select processes



PAYMENTS 2022: THE PLATFORM PAYMENTS ROADMAP

Platforms are among the most complicated businesses to start, and are even more difficult to ignite and scale. Creating value for stakeholders involves both the art and science of acquiring end users and suppliers and keeping them on board. Increasingly, integrating and enhancing payments functionality have become standard operating procedures in delivering the valuable platform experiences that drives their growth.

The digital platforms we studied are no less ambitious.

As our Payments 2022 Study finds, 94 percent expect to be larger in three years' time across both their physical and digital terrains. Platforms are eager to broaden their presence in digital channels — in particular voice commerce — and they want to expand globally in North America, Europe and emerging markets in Latin America and Asia.

The key to this growth, they report, is payments.

While the platforms we studied overwhelmingly view payments as strategically vital to achieving their growth objectives, they also believe that their current operations aren't sufficient to support those plans.

As we've seen, the average digital platform has 2.7 processing relationships. Sixty-two percent consider chargebacks and false-positives to be major problems, and while nearly two-thirds of firms say they are "somewhat" effective at detecting fraud, only 1 percent say they are "extremely" so.

Maintaining regulatory compliance is a problem for nearly two-thirds of the platforms we surveyed, but expansion into new geographies and flows is a top priority at the same time.

What's more, only 4 percent believe they actually convert the visitors they have invested time and energy into attracting into customers and sales.

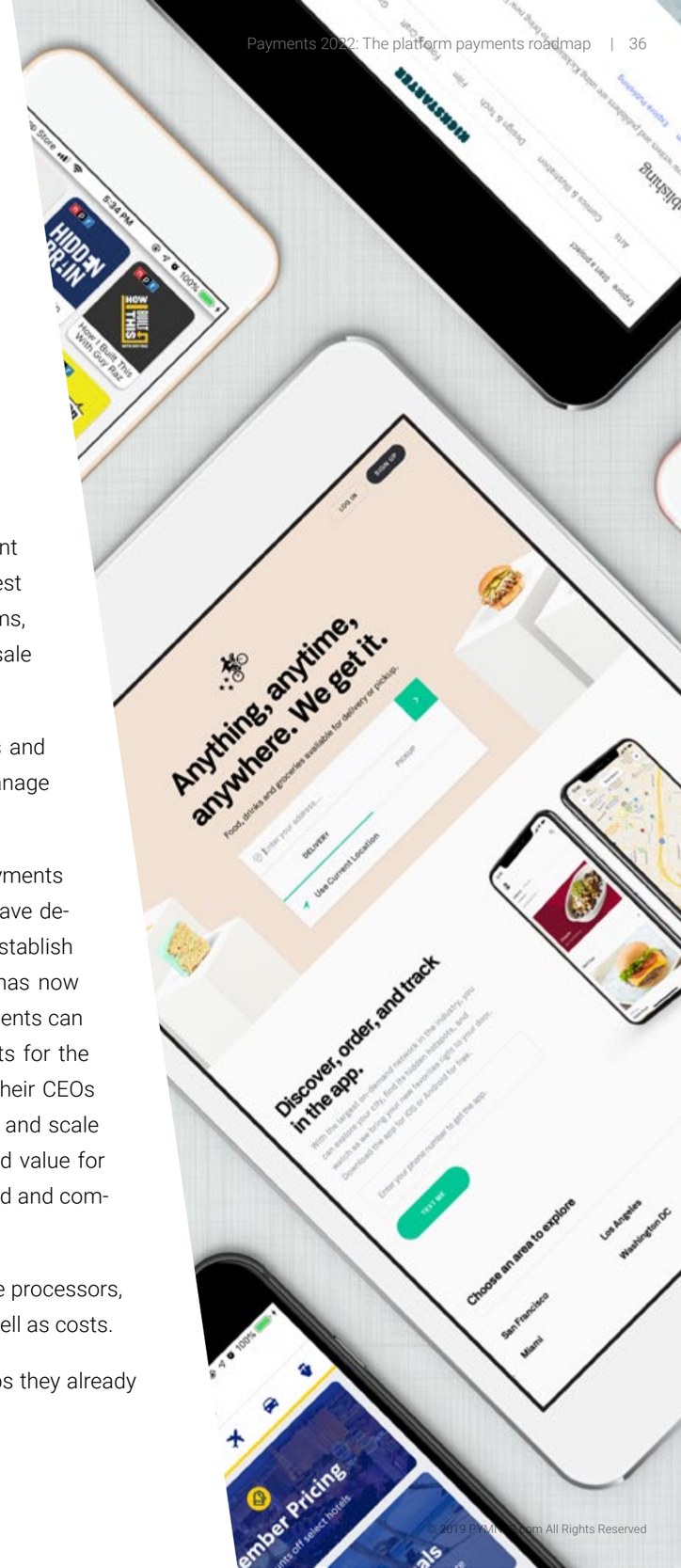
Not surprisingly, fewer than 10 percent of these platforms say they intend to keep their payment operations as is in the coming years. Fewer yet believe the path forward is about bringing payments in-house to manage them as part of their business operations or moving away from what's in place today to something new. Only 5.6 percent of the platforms we studied express an interest in intermediating payments for their platforms, and 7.2 percent report contemplating a wholesale change to providers.

Herein lies the opportunity for digital platforms and those with which they work to process and manage their mission-critical payments operations.

The status quo won't deliver the ambitious Payments 2022 roadmaps that each of these platforms have designed. The focus on payments acceptance to establish their footprint and build a base of customers has now given way to a more strategic look at how payments can fuel their future growth. The heads of payments for the platforms we studied are being challenged by their CEOs and boards to deliver the next phase of growth and scale — and they need payments capabilities that add value for their customers, while reducing their risk of fraud and compliance missteps.

One path forward is to add more, including more processors, vendors and personnel to the headcount — as well as costs.

The other way is to ask more of the relationships they already have.



METHODOLOGY

For the Payments 2022 report, we surveyed approximately 250 payments heads from digital payments platforms located both in the U.S. and abroad. Our survey was conducted during March 2019, and respondents hailed from five, distinct platform types, including the following:

- **B2B software-as-a-service (SaaS) firms:** SaaS companies that sell services to businesses (e.g., Slack, Tableau, Greenhouse, GoDaddy).
- **B2B platforms/utilities:** Companies that provide web-based business services (e.g., Shopify, DocuSign, Squarespace).
- **B2C retailers:** Companies that sell consumers retail products through their own websites. They may also have physical stores (e.g., Apron, Warby Parker).
- **B2C merchant marketplaces:** Third-party companies that allow merchants to sell products and services to end customers (e.g., Etsy, eBay, Airbnb, HotelTonight).
- **B2C services marketplaces:** Third-party companies that allow service providers to sell services directly to end customers (e.g., Uber, Lyft, TaskRabbit, Fiverr).

We asked respondents a variety of questions designed to help gauge the state of their current payments operations, and the role they foresee those systems playing in supporting their future growth and expansion. Our assessment considered factors on a number of different payments methods and functions, including but not limited to chargeback/dispute resolution, FX management, voice-recognition capability and real-time payments functionality. We also considered additional factors, such as overall cost of operation, the number of each respondents' payments vendor/processor relationships and payments functionality according to geographic locale.

The majority of platforms in our sample operate primarily in the United States: 61 percent of companies we surveyed earn less than 40 percent of their annual revenue from non-U.S. customers.

The distribution of platforms in our survey sample was also balanced in terms of size, with their distribution representing companies in all revenue brackets. These included firms generating annual revenues ranging from $21 million to more than $1 billion.

DEMOGRAPHIC DATA	N	Percentage	INDUSTRY SEGMENT				
			B2C services marketplaces	B2B SaaS firms	B2C merchant marketplaces	B2C retailers	B2B platforms/utilities
N			46	50	55	53	46
Percentage			**18.4%**	**20.0%**	**22.0%**	**21.2%**	**18.4%**
Share of annual revenue derived from non-U.S. customers							
0%	64	**25.6%**	28.1%	6.3%	32.8%	28.1%	4.7%
1% - 20%	38	**15.2%**	23.7%	21.1%	13.2%	18.4%	23.7%
21% - 40%	51	**20.4%**	7.8%	37.3%	11.8%	23.5%	19.6%
41% - 60%	52	**20.8%**	9.6%	26.9%	19.2%	26.9%	17.3%
61% - 80%	34	**13.6%**	23.5%	14.7%	26.5%	5.9%	29.4%
81% - 99%	3	**1.2%**	33.3%	0.0%	0.0%	0.0%	66.7%
100%	8	**3.2%**	12.5%	0.0%	50.0%	0.0%	37.5%
Annual revenue							
$21M - $50M	59	**23.6%**	16.9%	20.3%	15.3%	25.4%	22.0%
$50M - $100M	58	**23.2%**	24.1%	20.7%	13.8%	25.9%	15.5%
$100M - $500M	62	**24.8%**	16.1%	29.0%	22.6%	14.5%	17.7%
$500M - $1B	28	**11.2%**	28.6%	14.3%	7.1%	21.4%	28.6%
$1B +	43	**17.2%**	9.3%	9.3%	51.2%	18.6%	11.6%
Number of people in payments processing operations							
1 - 2	19	**7.6%**	10.5%	26.3%	15.8%	26.3%	21.1%
3 - 5	69	**27.6%**	18.8%	11.6%	29.0%	27.5%	13.0%
6 - 10	112	**44.8%**	21.4%	25.0%	11.6%	17.9%	24.1%
11 - 25	40	**16.0%**	17.5%	20.0%	40.0%	12.5%	10.0%
26 - 50	8	**3.2%**	0.0%	12.5%	25.0%	37.5%	25.0%
51+	2	**0.8%**	0.0%	0.0%	50.0%	50.0%	0.0%

ABOUT

PYMNTS.com

PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

stripe

Stripe is a set of tools for building and running an internet business. We help businesses accept payments from anyone, anywhere, and build new kinds of companies like Lyft or Kickstarter. Internally, we say our goal is to increase the GDP of the internet — we want to bring more businesses online worldwide.

In everything we do, we put our users first. We work hard to build the cleanest, most robust APIs possible so that our users can focus on building great products. There's always something more we can do — we're constantly seeking out areas of our product we can improve.

We are interested in your feedback on this report.
Please send thoughts, comments, suggestions or questions
to payments2022@pymnts.com.