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Go Beyond Payments for Software & SaaS

WHITEPAPER

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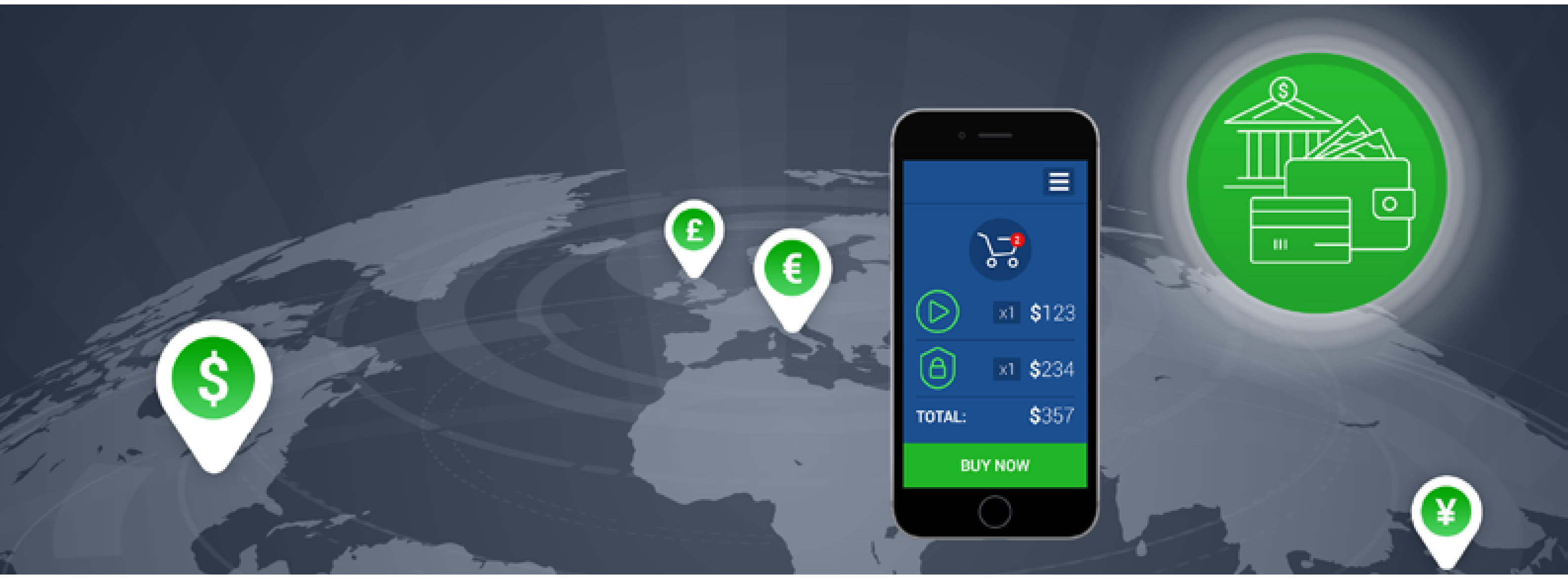
Contents



1. Intro

There's a renewed focus on payments and the payments industry has made it easier for companies to sell their products and services online. But a payments solution alone, while obviously important, is not enough to grow and sustain a digital business over the long term.

With 9 out of 10 digital ventures destined to fail, a smart practice for any new business would be to take a step back and a look at the bigger picture before settling on a simple, low-cost payments processor or solution.

This whitepaper is intended as the first step in that direction. In the following pages, we'll explore the core components of digital commerce and demonstrate why they've become the requirement for any digital business to achieve and sustain success on a global scale.

2. What Do You Need to Sustain Growth?

Many new and emerging SaaS and software companies are looking to use technology to make the payments experience frictionless. While that playbook has bought these businesses some initial wins, few have put in place the eCommerce foundation necessary to extend their run, or truly separate themselves in their markets.

To be fair, a company's eCommerce needs at startup are relatively simple and consist mainly of the ability to accept and settle payments in the native currency or at least in one major currency, most commonly the USD. At that point, the main objectives are growth and minimizing operational expenses, and a low-cost payments solution that can check the box on basic feature/functionality and be easily bolted on to the current technology stack seems perfectly adequate.

But as the business grows and looks to new markets and models for opportunities, that decision can come back to haunt, and hinder development. Let’s look at why.

3. Hitting the Payments Wall

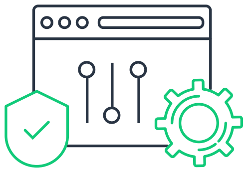
Limitations of Traditional Payment Processors

With all the buzz around payments, it's surprising that the industry as a whole has not responded quickly enough to advance its capabilities to match savvy buyers' requirements. Even among the largest payment providers, a gap exists when it comes to providing business with what it needs to grow and expand into new markets and sales channels, clear the latest (and not so latest) regulatory hurdle and experiment with emerging pricing and revenue models.

As a result, many SaaS and software companies are quickly maxing out their markets and finding it increasingly difficult to sustain a solid rate of revenue growth. What's the solution? They need to better understand the intersection between payments, eCommerce and distribution – let's call that modern digital commerce.

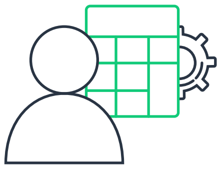
Unlike payments alone, a modern digital commerce foundation takes into consideration all the elements required for doing business successfully on a global scale. That includes:

Smarter payments to maximize revenue globally



Flexibility to experiment with business models and sell and renew across channels with any type of pricing or rate plan

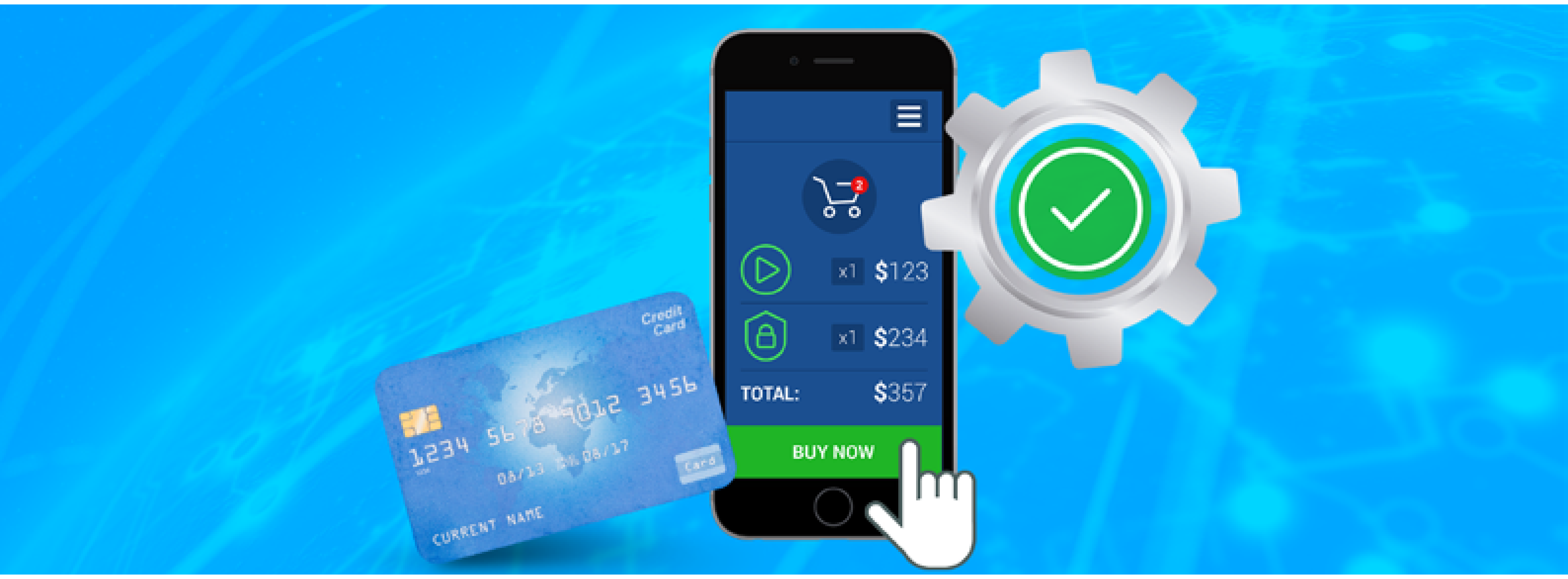
Distribution management covering both resellers and affiliates



Back-office operations to handle finance, tax collection and regulatory compliance

For a business just out of the gate, a digital commerce foundation can mean the difference between quickly finding your footing and reducing the time to revenue or running out of cash before the next round of funding. It is also critical for established businesses, especially those that have hit a wall or need to pivot to keep up with the market or stay ahead of the competition.

At some point in every digital business's development, it will need to pivot, expand globally, experiment with new products or models, or become more efficient. A comprehensive digital commerce solution can't guarantee a successful outcome, but it is a prerequisite for being even able to try.



4. A Successful Business on a Global Scale

Here we'll go through a few steps to get you started on your way and understand which are the areas and the capabilities you need to look at in order to be nimble and grow efficiently.

4.1 Going Global & Going Local

Technology may be making the world smaller, but cultural preferences remain. Connecting with global buyers requires a tailored approach that treats each market as a separate and distinct entity. To give buyers the familiar experience they're looking for, you'll need to localize each aspect of the buying experience, which includes everything from the payment method, currency, prices, text, labels and messages to date and time, phone number, graphics, formatting, punctuation and addresses.

70%

"Customers are 70% more likely to purchase if the shopping cart is displayed in their native language and their preferred payment method is listed as an option."

Having the choice of a preferred payment method can be the deciding factor for a buyer, and so the ability to offer the preferred payment – whether that's credit cards in the US, PayPal or SEPA Direct Debit in Germany, Boleto Bancario in Brazil or Konbini in Japan – can mean the difference between success and failure for each market you enter.

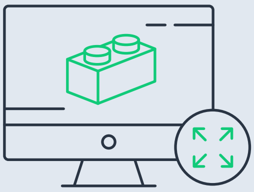
Can your provider respond to new market opportunities – for e.g. in Brazil, China, Russia?

4.2 Payment Model Flexibility

One thing is the payment methods you are going to make available to your end customers, and another is *how*. Make sure you understand the business model you are signing up for – do you require a merchant account for each country you are selling into, or will your processor cover that requirement? Bear in mind that merchant accounts are based on credit worthiness and other risk criteria, which means not everyone will be approved.

Additionally, securing a merchant account - especially in multiple locales - means lots of paperwork, multiple risk evaluations, and months of delayed time to market. Understand if you have flexibility over the business model by country or region, depending on your goals – you may want to be the merchant of record in your key markets, but not worry about payment processing and all that it entails in the rest of the world.

Can your provider offer payment model flexibility, at least for the key markets you are targeting?



4.3 Scalability

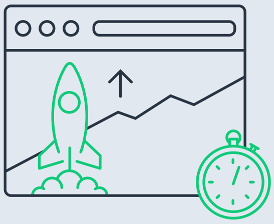
With growth comes complexity and the need to scale smartly to meet increasing operational and customer demands. You can scale payments to keep up with demand, but if you leave out commerce – which most processors don't even consider – you're most likely going to leave behind other essential business functions like marketing, back-office operations, including order management, distribution and customer support.

But even scaling payments alone can have its challenges. Expanding globally typically means having to contract with a different processor for each market you enter (or even more per each market), which *isn't* a scalable model for most online businesses. What is scalable is the use of API to aggregate payments across processors. This eliminates the need to sign individual contracts on the business side and enables you to leverage a single connection on the technical side - or at least a few connections only, if we are to go back to the payment model flexibility argument.

As a general rule, if you are a start-up or an SMB, or even a business unit within a large enterprise-level company, you will want to scale quickly without investing upfront and utilizing additional resources, so outsourcing payment processing will be the answer for you.

"If you want to scale quickly without investing upfront and utilizing additional resources, outsourcing payment processing will be the answer for you".

4.4 Time to Market



If you need to manage contracts, develop APIs necessary to integrate multiple payment processors, and staff and train your people to ensure ongoing maintenance, the final consequence is lost time. The effect of all this time spent to shore up payments, paradoxically, is the loss of the core business focus and momentum that put you in the position to expand payments in the first place. With an all-in-one eCommerce platform you can get started in days or weeks, not months, while optimizing revenues, simplifying and scaling operations, and reducing your commerce costs.

"Get started in days or weeks, not months."

4.5 Conversion & Authorization Rates

Payment providers charge for access to their platform, the gateway, and their payment methods. They make money irrespective of whether your transaction is successful, so it serves you best to always be looking to maximize your conversion and authorization rates..

Conversion Rates depend on many things and vary by target market, segments, industry, average order value, region, country, desktop vs. mobile, and so on. An average rate above 30% is considered to be good in the B2C software world (above 40% and you're doing great), with rates even over 50% for SaaS and B2B.

Conversion rates above 30% or 40% for software sales? You're on the right track.

But there's always some room for improvement. So ask yourself the question, "What's killing your conversion rates?" A complicated purchase funnel? Unclear product or pricing pages, shopping cart abandonment due to displaying too few payment methods? There are a number of factors that can keep your visitors or leads from converting, and it's obvious that it's not just payments.

By pinpointing and optimizing those areas, you can dramatically, and often quickly, improve your conversion rates throughout your buyer journey. It's easier to optimize than to acquire new traffic.

Want to learn more on conversion optimization? Check out more resources from webinars to case studies.

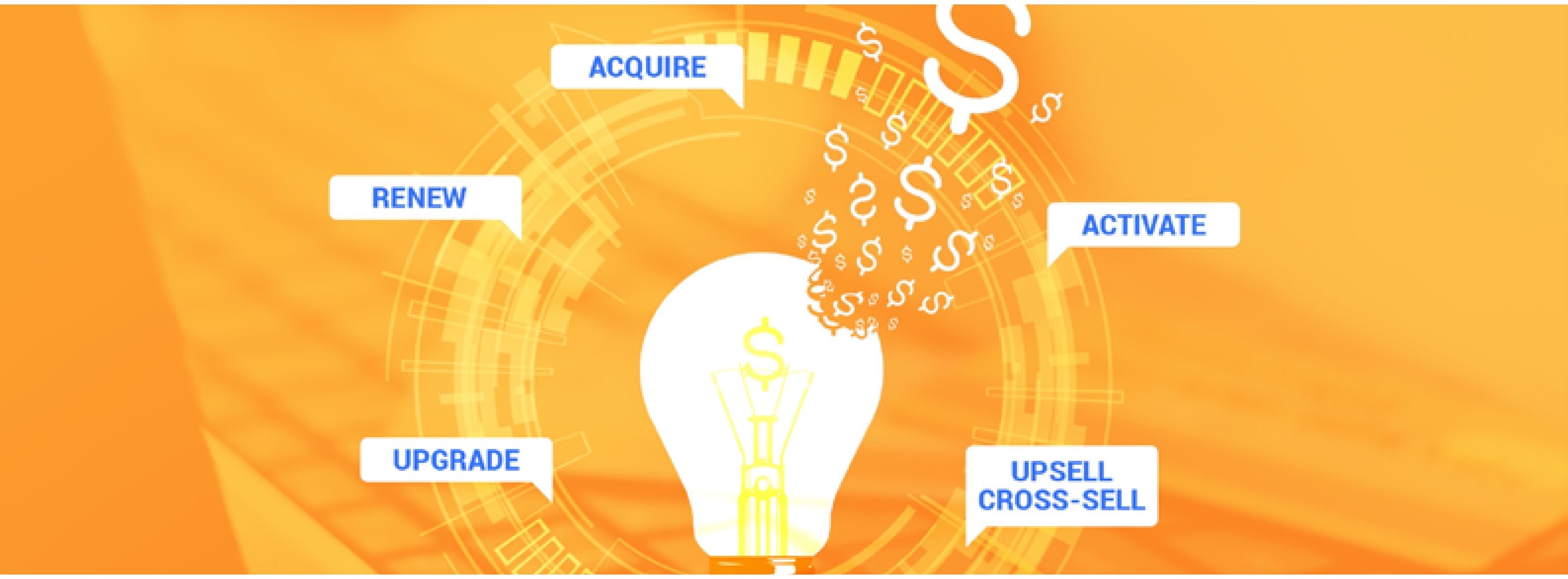
See More Resources

Optimizing Authorization rates may seem exotic. "Do I even have access to this kind of information?" You should. Track authorization rates and get insights into how authorizations are managed, or what tools, if any, are utilized to increase authorization rates.

Similar to conversion rates, authorization rates vary depending on the type transactions (cross-border vs. local, new acquisition vs. renewal), region, currencies and other elements such as card type – debit/ credit/ prepaid.

85%+

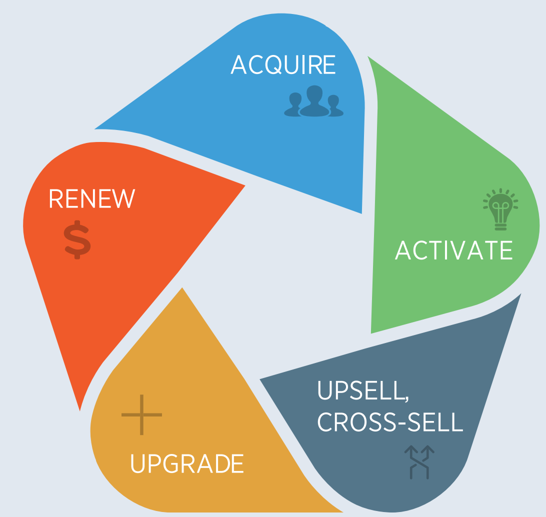
A good authorization rate is above 85%



5. Smarter Payments at Every Stage of the Commerce Lifecycle

The digital goods market is growing at an exponential rate and SaaS and software companies are in a great position to benefit from the billion dollar market up for grabs. At the same time, subscriptions “are eating the world”, and for any digital goods company, the option to purchase with a recurring billing plan is practically an expectation. But managing subscriptions is complex and for every dollar gained, businesses risk losing 10 to 20 cents of it to revenue leakage.

Revenue leakage can happen at any point across the digital commerce lifecycle and can cost businesses up to 20% in lost revenue per year.

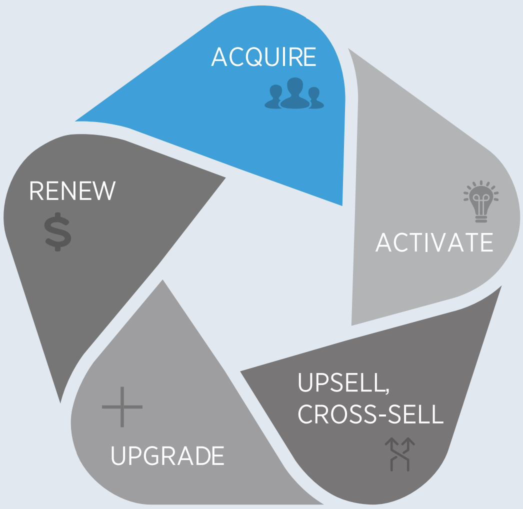


Going beyond payments at every stage of the lifecycle: acquisition, upselling, upgrade/ downgrade/ renewal.

Before a new customer can even click the “buy” or “try” button, you need to be able to answer a laundry list of operational questions that range from your ability to support and manage subscriptions, refunds and chargebacks to how you collect taxes and handle affiliate attributions and cart abandonment. Below are just a few examples of issues (or lack of functionalities) **directly or indirectly connected to payments** that may cause revenue leakage at each stage of the lifecycle and which are the capabilities you need to have in order to turn that leakage into revenue uplift.

5.1 Acquisition

The complexities of customer acquisition are not just about quality of traffic and site conversion.



Drawbacks

Missing local payment optimization - localized versions of the shopping cart, localized shopper support, or inadequate support for additional sales channels - can lead to poor conversion, cart abandonment and implicitly revenue leakage.

Must haves

Not just payments, but “smarter payments” play a big role at this stage, and here we include local processing used in conjunction with fallback processors, local payment optimization (including using alternative payment methods), and other services such as Dynamic 3D Secure. Localized versions of the cart can also contribute to driving conversion rates up.

TIP: For more insight into acquisition, download the eBook on “Customer Acquisition for Digital Goods and Services Companies”

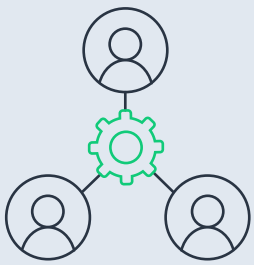
Download eBook

Chargebacks & refunds cost digital businesses millions of dollars a year, and if not kept in check can cost a company even more if the acquiring bank terminates the account.

Refund and chargeback services manage the dispute and resolution process with customers and 3rd parties and use anti-fraud measures to detect, prevent and fight fraudulent claims. Understand if your provider will manage or fight chargebacks on your behalf; if not, it may mean an increased cost of your business longer term.

<1%

You need to be cognizant of your chargeback and refund rate at all times. Continually monitor your reporting to ensure you remain below the 1% threshold.

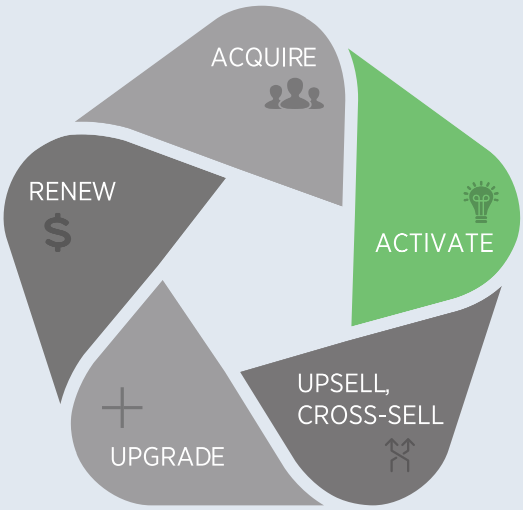


Use indirect channels for acquisition

The right distribution tools help turn distribution channels into revenue engines – whether we are talking about resellers and distributors, or affiliates. As a result, digital businesses need to provide their indirect channels partners with adequate payment methods, for both one-time payments as well as recurring transactions, or risk diminished returns from the relationships.

5.2 Activation

An important stage for digital products, activation is sometimes neglected and limited engagement is provided for onboarding and actual product activation.



Drawbacks

Lack of flexibility for payment integration or poor trial strategies may be causes of poor activation, which leads to limited product usage, which can in turn lead to low trial to paid conversion rate or cancellation before renewal.

Must haves

Order and billing automation as well as automatic fulfillment management can help improve activation rates for digital goods and services. Also, multi-model support, with flexible payment options is an advantage. You should be able to go to market with pretty much any business model; activation should be a step in the purchase process made as seamless as possible, and not a barrier.

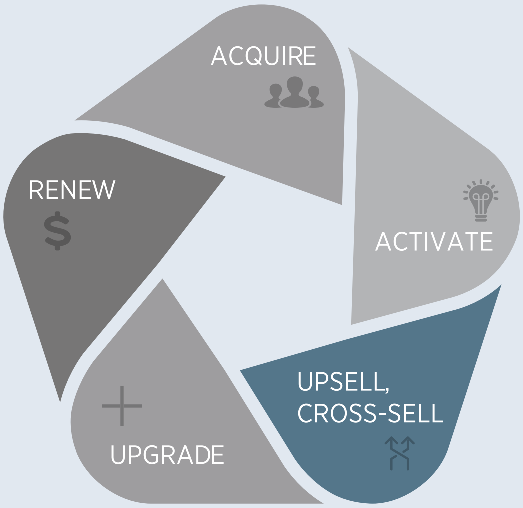
5.3 Upselling & Cross-selling

Drawbacks

A lengthy or laborious setup process for upselling and cross-selling campaigns or the resource-intensive management of these pretty basic eCommerce functions can lead to revenue leakage at this stage of the lifecycle and to lost revenue opportunities. Other limitations include the inability to promote these campaigns except via only a few touch points (for example, lack of in-product commerce functionalities) or not leveraging APIs for a seamless customer experience.

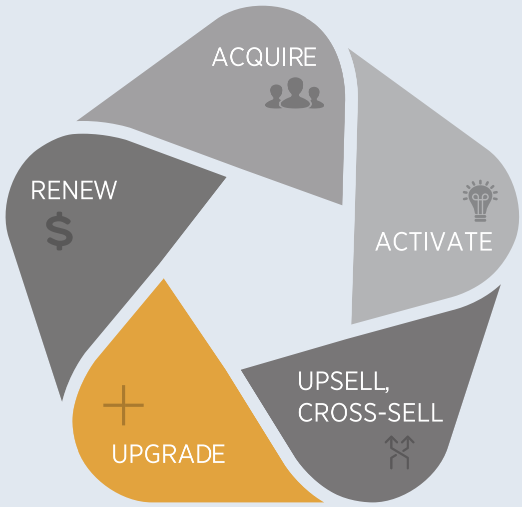
Must haves

A flexible product catalog as well as integrated promotions with multi-currency discounts help increase average order value and overall revenue. Campaigns set up through APIs (resulting in one-click type of upselling and cross-selling post-purchase) can also drive increased conversions, since customer interactions are seamless and the experience optimized.



5.4 Upgrade

Upgrades are fundamental to the land and expand strategy. Success requires deep knowledge of the business' customer base, including an understanding of their needs and behavior, how (when relevant) to easily segment them, and an offer that includes attractive pricing and packaging.



Drawbacks

Customer experience is also important. Limited self-service or call center support, a lack of embedded in-product experience or poor campaign timing that doesn't take into account usage or client satisfaction can all suppress upgrades. If, for example, your upgrade offer includes an account expansion to five or more seats, monitor your customers who are approaching that limit. Sending that offer to a customer only using two accounts isn't an effective use of time. Instead, group your upgrade offers by your clients' needs. As an alternative, center the upgrade offer around an add-on module that would benefit them, and not expanded seats they have no use for. At the same time, make sure your payment options align with the offering.

An upgrade offer that is dependent on a payment that cannot be done in real time will not benefit a customer that is in desperate need of additional functionality.

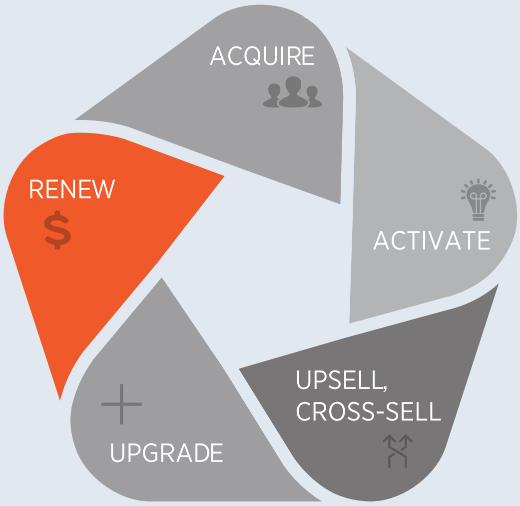
Don't leave out communication and responsiveness either. SaaS customers will often upgrade within the product, to satisfy their need for additional services or functionality. By not being able to respond immediately to a question, you risk an easy opportunity to close a sale. To be safe, provide a real-time online chat that they can easily access from anywhere within the product. In some cases, if they have to submit a question and wait 24 hours for a response, you are likely to lose the upgrade sale.

Must haves

In-product embedded commerce functionality is clearly a must in order to go full circle and complete the purchase. Make sure you have a streamlined upgrade flow, taking into account customer and payment information, with assisted & self-service support that also includes payment method change support and card updating.

5.5 Renewal

As subscription-based software and services continue to expand, the renewal stage of the commerce lifecycle is crucial for the survival and success of an eBusiness today.



Drawbacks

While new acquisitions are obviously important to growth, maximizing the value of your existing customers can be an even surer path to increasing revenue long term. Getting the most from your install base requires the capability to identify your best customers and apply tactics that increase retention and reduce churn.

Ineffective subscription management, lack of proactive retention strategies or services to combat involuntary (payment-related) or voluntary churn, lack of transparency over authorization rates or lack of support for recurring payments for indirect channels can be major detractors at the renewal stage and a source of revenue leakage.

Must haves

Revenue Recovery Tools (RRT) like Intelligent Payment Routing, Account Updater Services and Expired Card Handling are the unsung heroes of eCommerce. Soft declines – from card expiration, insufficient funds, activity limits and processing failures – cost eBusinesses billions of dollars a year. Revenue Recovery tools work to increase authorization rates by optimizing the card processing process, allowing you to retry a subscriber payment, for example, at an alternative time when they're more likely to have cash in the account.

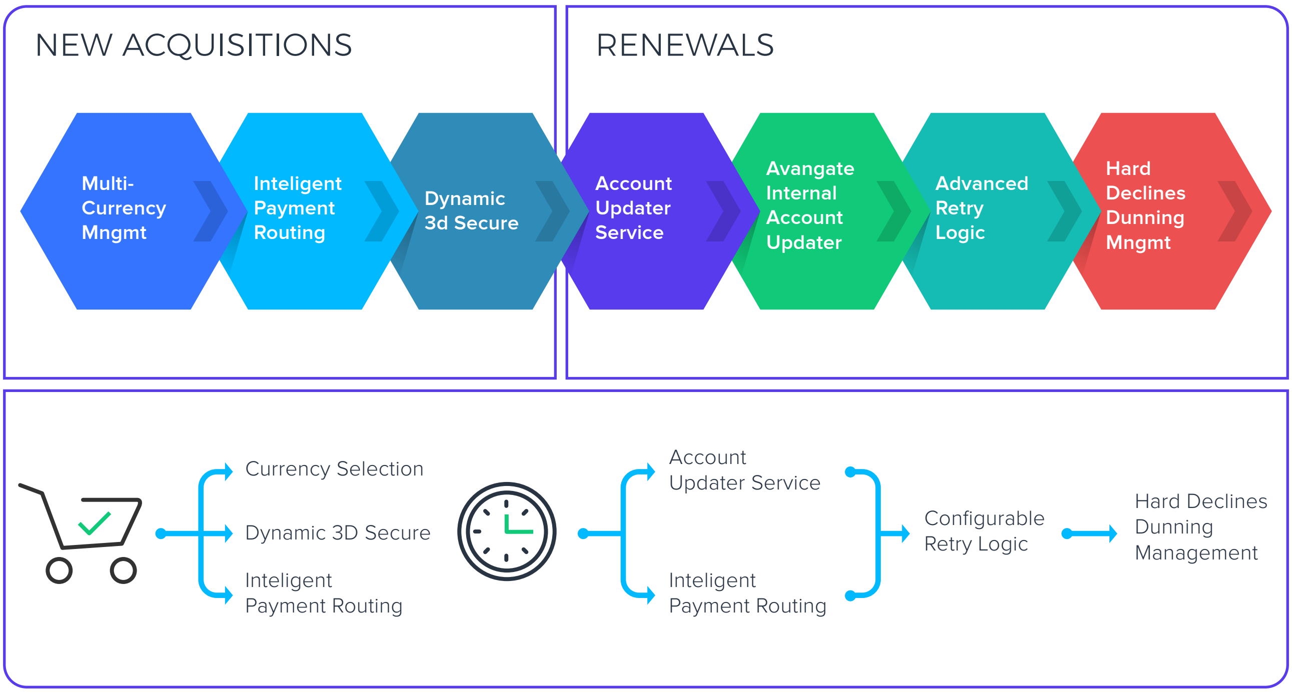
Overall, RRT can drive up to 20% revenue uplift for subscription based businesses.
Here's a quick overview of these services:

20%

Revenue Recovery Tools can drive up to 20% revenue uplift

TIP: For more insight into Revenue Recovery Tools, download the dedicated Datasheet here.

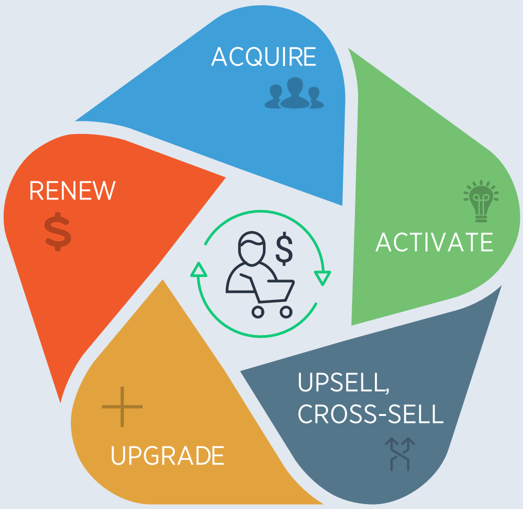
Download Datasheet



Revenue Recovery Tools in Chronological Order

5.6 Across the Lifecycle: Subscription Management

Subscription Management is also an important aspect across the customer lifecycle, from acquisition to renewal, but can be costly to build and maintain in-house. Building and maintaining the subscription capability plus the marketing and merchandising tools and back-office to support it in-house or via 3rd-party can cost you 4.5% of your annual revenue spend.



Here are some capabilities you need to take into account, and understand their connection to payments and collections:

- **Flexible billing plans** (one time, recurring, usage, any combination).
- **Flexible invoicing and pricing options** (for subscriptions or subscription add-ons, migrations and +/- prorations and product upgrades). Easily extendable pricing breaks/discounts, support for any pricing models – ad hoc, one time, recurring, discounts, grandfathering, regional pricing, tiered, custom, variable etc.
- **Robust order management** (including trials, support for group/enterprise sales, bundles, prorations).
- **Robust billing & rating engine**, able to support multiple models, from one-time, recurring, prorate mid period plan changes, align charges, automate usage data collection and rate it, reducing administration resources and financial errors.

6. Ten Things to Consider Before You Sign On the Dotted Line

First, a Pop Quiz

The list below contains several reasons for why new online businesses fail, according to a widely cited report conducted by CB Insights (and several updates supporting the original report's findings):

#2. Ran Out of Cash
#4. Get Outcompeted
#5. Pricing/Cost Issues
#7. Need/Lack Business Model
#8. Poor Marketing
#9. Ignore Customers

Let’s look at that list again:

Reason:	Read:
Ran Out of Cash	*Couldn’t sell our product/ service and get cash coming in fast enough.*
Get Outcompeted	*Competition moved faster and smarter, using resources more efficiently.*
Pricing/Cost Issues	*Poor pricing strategies and lack of ability to iterate and experiment quickly. Costs not kept under control. Too heavy upfront investment.*
Need/Lack Business Model	*Rigid business model, lack of flexibility to adapt quickly.*
Poor Marketing	*Lack of or poor utilization of tools and resources. Poor reporting. Lacking additional marketing/sales channels or adequate support for those.*
Ignore Customers	*Lack of customer support across touchpoints/ channels or time zones. Little ability to embrace customer feedback, or poor timing in doing so.*

Conclusion? When considering selling online, in order to avoid these failure reasons, software and SaaS providers need to better understand the intersection between payments, commerce and distribution applicable to their vertical.

Here are a few steps to get you started on your way.

Step: 1

Review your current **payment charges and operational costs** – including risk/fraud management, taxation compliance and filing, foreign exchange fees, financial reconciliation and others – to get a complete picture. Although many payment tprocessors have transparency in their gateway fees, there are many hidden fees such as API call fees (with most transactions needing 3-4 API calls/transaction), chargeback fees, cross-border fees, refund fees, etc. making that seemingly inexpensive 2-3% gateway fee pretty expensive. Besides fees, you need to understand whether additional integrations, contracts or support resources are needed.

Step: 2

Commerce, marketing and merchandising tools – here the list can be very long. Do you have the capabilities for eCommerce, from cart integrations and management, purchase flow customizations? Are you capturing cart abandonments and utilizing retargeting strategies – follow-up marketing messages, can you easily set up promotions, with coupons and discounts, etc., etc., can you set up integrated marketing campaigns across channels and touchpoints?

Step: 3

Make sure you understand the **business model** you are signing up for – do you require a **merchant account** for each country you are selling into? Understand if you have flexibility over the business model by country or region, depending on your goals.

Step: 4

Can your provider respond to **new market opportunities** – for example, in Brazil, China, Russia? Are global but also **local payment methods supported**? This is a key growth area.

Step: 5

Demand better performance from existing traffic – **improved conversions and more control**. It's easier to optimize than to acquire new traffic.

Step: 6

Track **authorization rates** and get insights into how the authorizations are managed, or what tools, if any, are utilized to increase authorization rates.

Step: 7

Review **subscription-billing** effectiveness and examine the link between the payment processor and billing provider. Some payment processors don't support recurring transactions. Or they support recurring online payments via a third-party partnership, which means another implementation, another party to manage, another negotiation for rates, another contract to sign, etc

Step: 8

What percent of your transactions are **chargebacks and refunds**? Ensure that you are not close to the red line of 1%. Also, understand if your provider will manage or fight chargebacks on your behalf; if there is no incentive for them to do so, it may mean an increased cost for your business longer term.

Step: 9

How easy is to onboard? Most payment processors only have a gateway, which means you need to find an acquirer and go through extensive risk evaluation (routine exams for money laundering, cross-reference against OFAC list, etc.) which can take several months for companies to get approved, delaying time to market.

Step: 10

How **scalable** is the solution you are choosing? Very often with payment processors, in order to have true scalability, you have to implement partner offerings (which means another contract, more fees, additional risk evaluation, integration time and costs, etc.) to complete the framework needed for your commerce functionality.

Let’s see that again as a checklist where you can tick the boxes:

Going beyond Payments. Ten Things to Consider Before You Sign On the Dotted Line		
1	Review payment charges and operational costs	✓
2	Do you have commerce, marketing and merchandising tools?	✓
3	Do you require a merchant account for each country you are selling into?	✓
4	Are global but also local payment methods supported?	✓
5	Can you get improved conversions and more control over the purchase process?	✓
6	Can you track authorization rates and do you have the tools to increase them?	✓
7	Review subscription-billing capabilities	✓
8	What percent of your transactions are chargebacks and refunds? Who is managing or fighting chargebacks for you?	✓
9	How easy is to onboard with the new provider, what additional integrations are needed?	✓
10	10. How scalable is the solution you are choosing?	✓

7. Conclusion & Next Steps

Launching a digital business is relatively easy and can be achieved with a webpage and a payment processor. But with 9 out of 10 new online businesses failing within the first 120 days, keeping the company going is obviously a lot more difficult. The list of reasons for why new businesses fail is long, but many of those could be surmounted if you adopt a strategy that goes beyond just payments and puts in place the foundational requirements for digital commerce.

Before you sign on the dotted line, make sure you understand the big picture. And go beyond payments.

What's Next?

2Checkout is equipped with everything today's companies need to go beyond payments and manage and grow a software or SaaS business with one easy-to-use digital commerce package.

For over 10 years, we've helped businesses like yours sell more digital products and services all over the world by working together to increase conversion rates, improve purchase flows, increase the potential of every interaction with their customers and ultimately maximize customer lifetime value.

How? We've packaged up hundreds of best practices into out-of-the-box features and templates, many of which help you do exactly what this whitepaper covers: go beyond payments across the commerce lifecycle, across channels and touchpoints.
And this is, of course, is just one small part of our whole offering, which covers ecommerce, payments, subscription billing, affiliate marketing, channel management, reporting, integrations and much, much more.

Want to give it a try? Sign up for free here.

About 2Checkout

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2Checkout (formerly Avangate), a Francisco Partners portfolio company, is the digital commerce & payments provider that helps companies sell their products and services via multiple channels, acquire customers across multiple touch points, increase customer and revenue retention, leverage smarter payment options and subscription billing models, and maximize sales conversion rates. The company's clients include ABBYY, Absolute, Bitdefender, FICO, HP Software, Kaspersky Lab, and many more companies across the globe.

Avangate acquired 2Checkout in March 2017. More information about 2Checkout's Avangate platform and related services can be found on www.avangate.com.

More information on 2Checkout can be found on www.2checkout.com

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