

EMBEDDED PAYMENTS

AND THE
RETAIL INNOVATION AGENDA

December 2023 Report



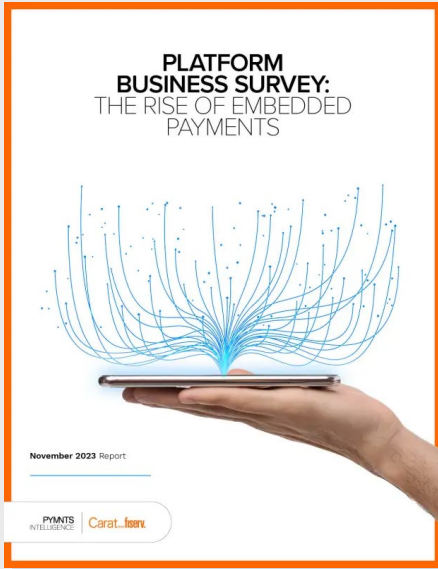
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EMBEDDED PAYMENTS AND THE RETAIL INNOVATION AGENDA

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The Rise of Embedded Payments



Embedded Payments and the Retail Innovation Agenda was produced in collaboration with Carat from Fiserv, and PYMNTS Intelligence is grateful for the company’s support and insight. [PYMNTS Intelligence](#) retains full editorial control over the following findings, methodology and data analysis.

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WHAT'S AT STAKE

Payment facilitators, or PayFacs, provide embedded payments solutions alongside a range of other payments acceptance tools. Marketplaces and independent software vendors (ISVs) are increasingly embracing embedded payments options to help them monetize new revenue streams, deepen customer engagement and grow entirely new lines of business. However, these players must navigate both heightened economic uncertainty and complex regulatory and compliance requirements in their quest for innovation.

PYMNTS Intelligence's latest study shows that economic conditions are the most worrisome challenge for PayFacs, ISVs and marketplaces alike. It also reveals contrasting priorities in the rapidly evolving retail payments space. For example, 6 in 10 retail PayFacs and marketplaces are embracing buy now, pay later (BNPL) services, while just 31% of retail ISVs are doing the same.

75%
of retail PayFacs are very or
extremely interested in
innovating digital wallet processing.

These are just some of the findings detailed in Embedded Payments and the Retail Innovation Agenda, a PYMNTS Intelligence and Carat from Fiserv collaboration. This edition examines the state of play for PayFacs, ISVs and marketplaces in the retail sector, explores the innovation strategies and challenges these players face and draws on insights from a survey of 282 executives conducted from July 10 to Aug. 25.

This is what we learned.

KEY FINDINGS

Forty-four percent of PayFacs operating in retail prioritize operational enhancements for the innovation agenda.

Nearly half of retail PayFacs prioritize operational enhancements above all else.

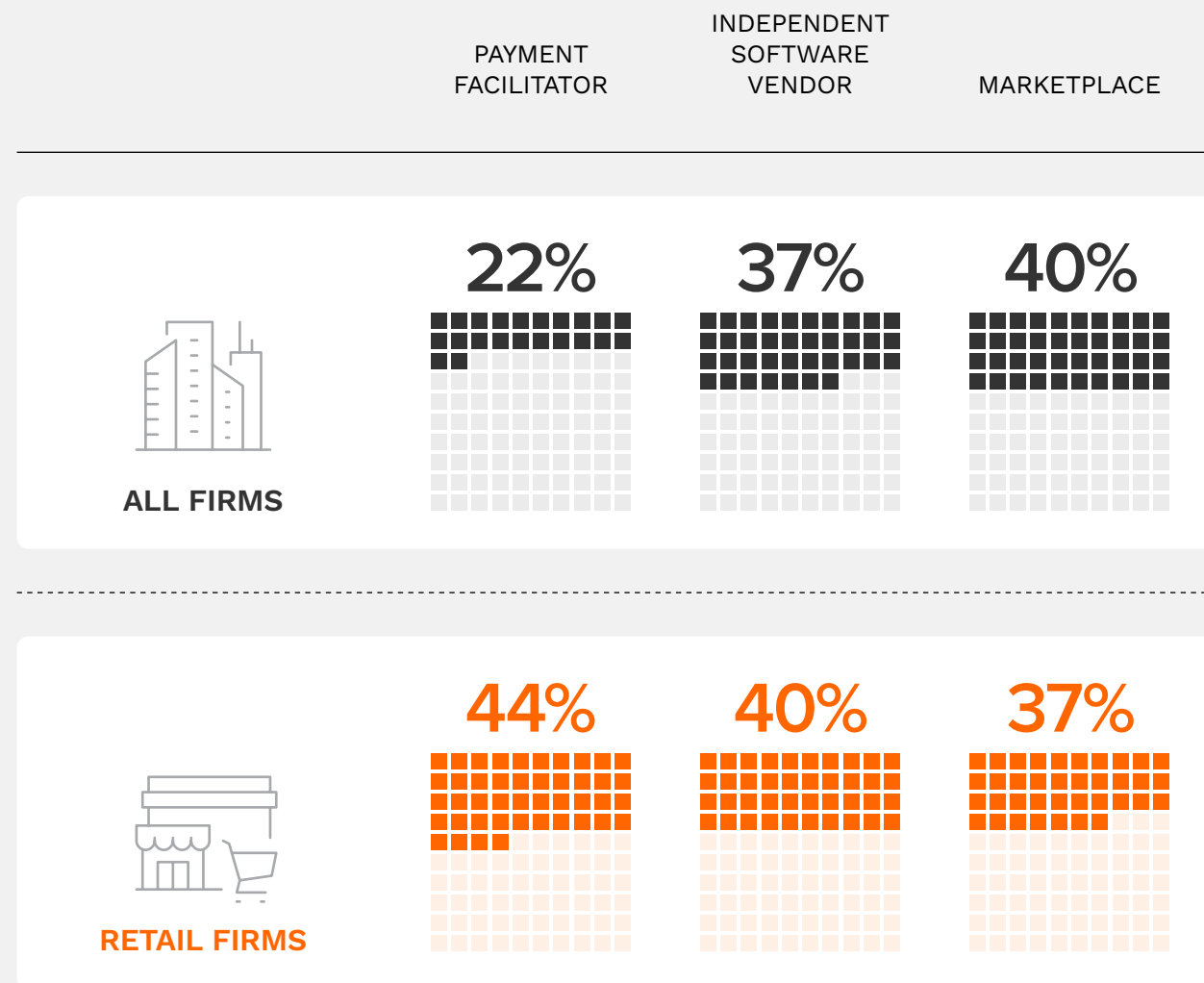
In the retail sector, PayFacs are increasingly focused on streamlining operations and enhancing transaction processing speed, showcasing a distinct trend toward operational efficiency. PYMNTS Intelligence finds that 44% of PayFacs operating in retail prioritize operational enhancements above all else on their innovation agendas — a rate twice as high as the 22% average observed among PayFacs operating across all industries in our study.

Despite their focus on operational enhancements, retail PayFacs also recognize system integration as a key obstacle to innovation. Highlighting this challenge, 19% of retail PayFacs — nearly double the 10% average across all PayFacs — cite integration issues as a significant hindrance to innovation rollouts.

FIGURE 1:

The importance of operational enhancement

Share of firms citing operational enhancement as the most important item on the organization’s innovation agenda, by type of firm

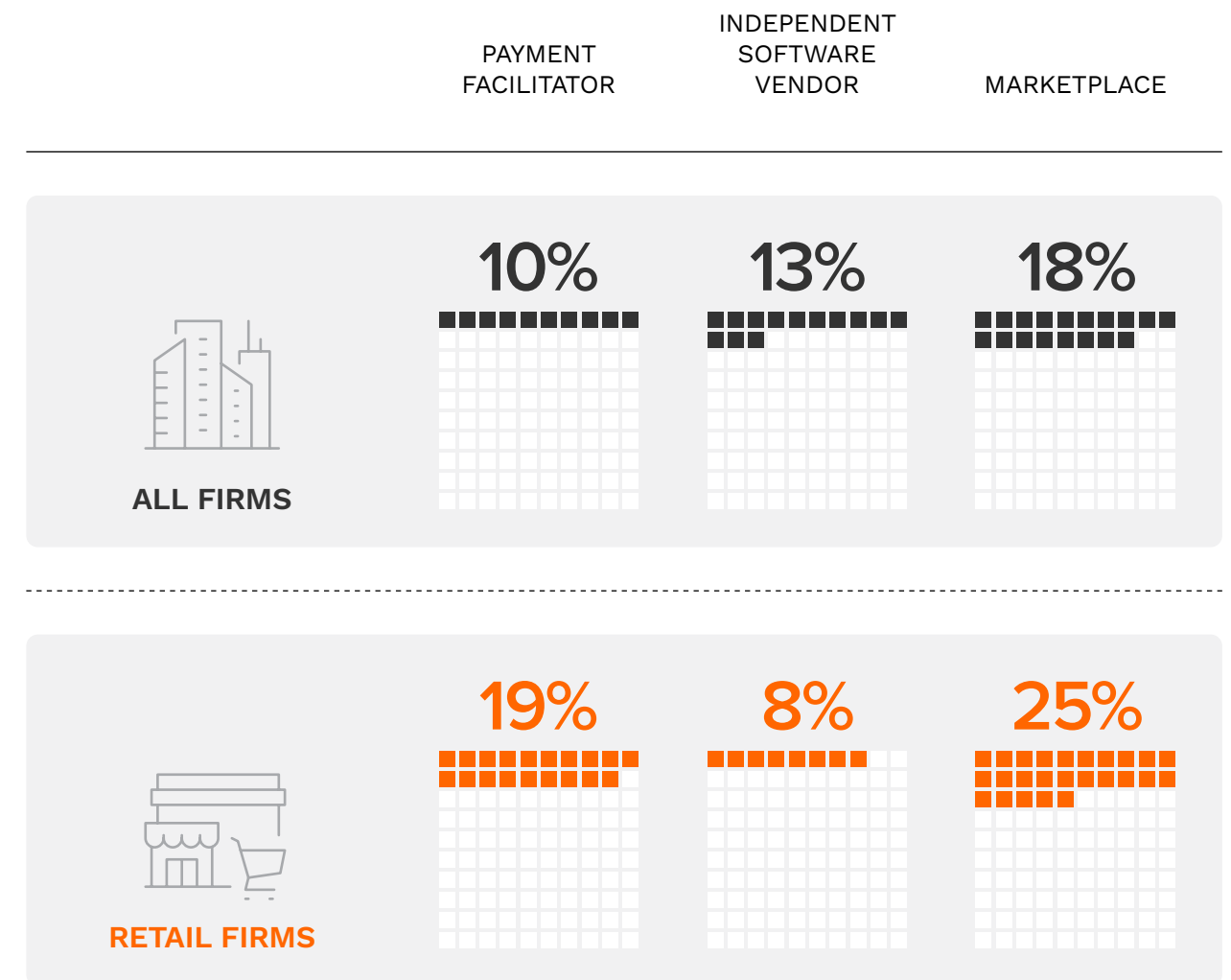


Source: PYMNTS Intelligence
 Embedded Payments and the Retail Innovation Agenda, December 2023
 N = 282: Complete responses, fielded July 10, 2023 – Aug. 25, 2023

FIGURE 2:

Integrating systems presents a hurdle to bringing innovations to market

Share of firms citing integrating different systems as the biggest challenge to bringing innovations to market, by type of firm



Source: PYMNTS Intelligence
 Embedded Payments and the Retail Innovation Agenda, December 2023
 N = 282: Complete responses, fielded July 10, 2023 – Aug. 25, 2023

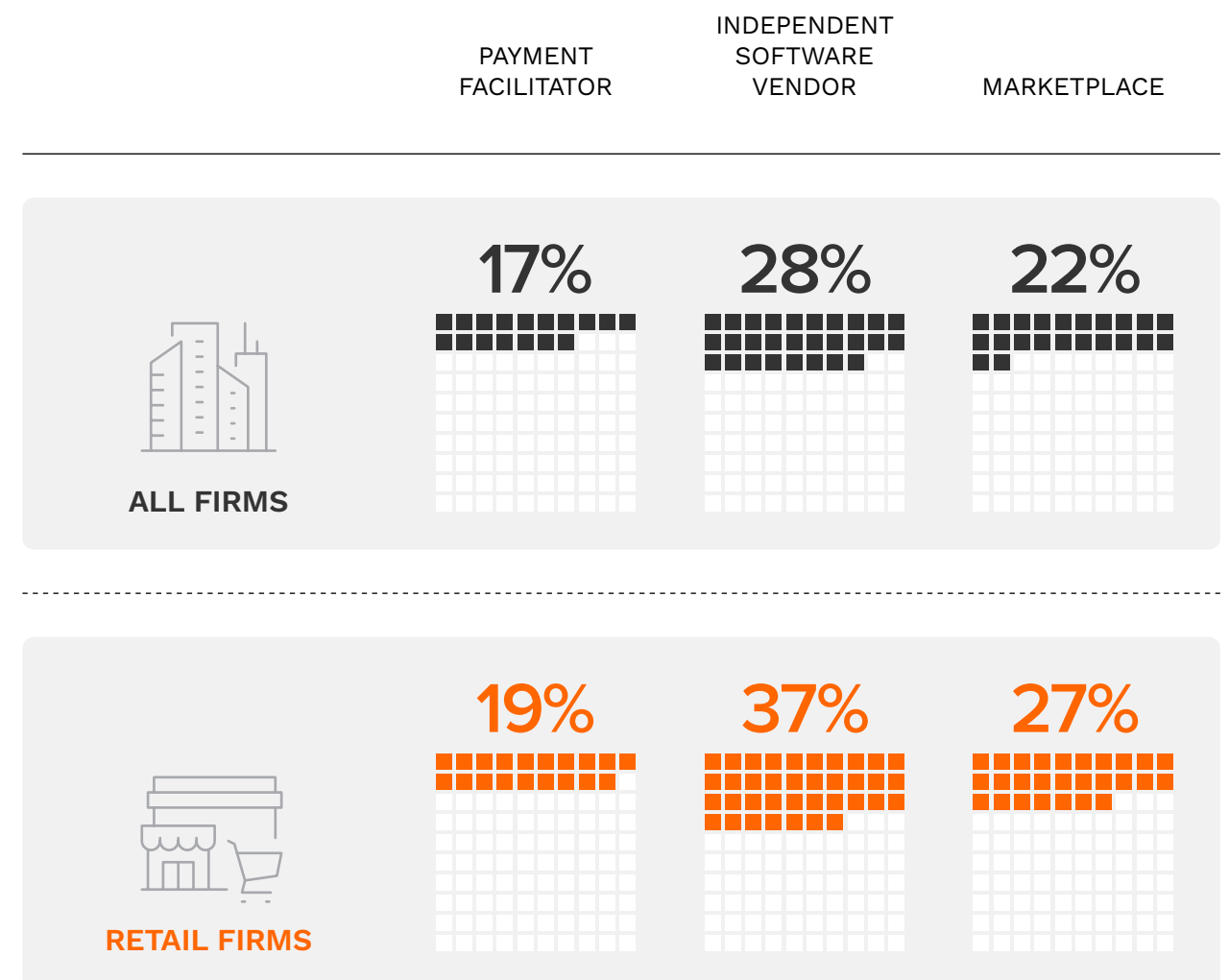
Nearly half of retail marketplaces and 59% of retail ISVs say regulations and compliance impact innovation efforts.

Retail ISVs and marketplaces face regulatory and compliance requirements that can complicate efforts to innovate.

Retail ISVs are most likely to cite regulation and compliance requirements as a challenge: 59% see regulation as a challenge when bringing innovations to market — a figure significantly higher than the 28% average observed across all ISVs studied. Indeed, for 37% of retail ISVs, it is the biggest challenge.

Forty-seven percent of retail marketplaces view regulatory compliance as a challenge, with 27% saying it is their biggest challenge when bringing innovations to market. System integration issues follow closely, with 25% citing the issues as their primary challenge.

FIGURE 3:
Compliance requirements can be a challenge for firms seeking to innovate
 Share of firms citing regulation and compliance requirements as the biggest challenge to bringing innovations to market, by type of firm



Source: PYMNTS Intelligence
 Embedded Payments and the Retail Innovation Agenda, December 2023
 N = 282: Complete responses, fielded July 10, 2023 – Aug. 25, 2023

30%

Share of retail marketplaces that say **customer experience is their top innovation driver**

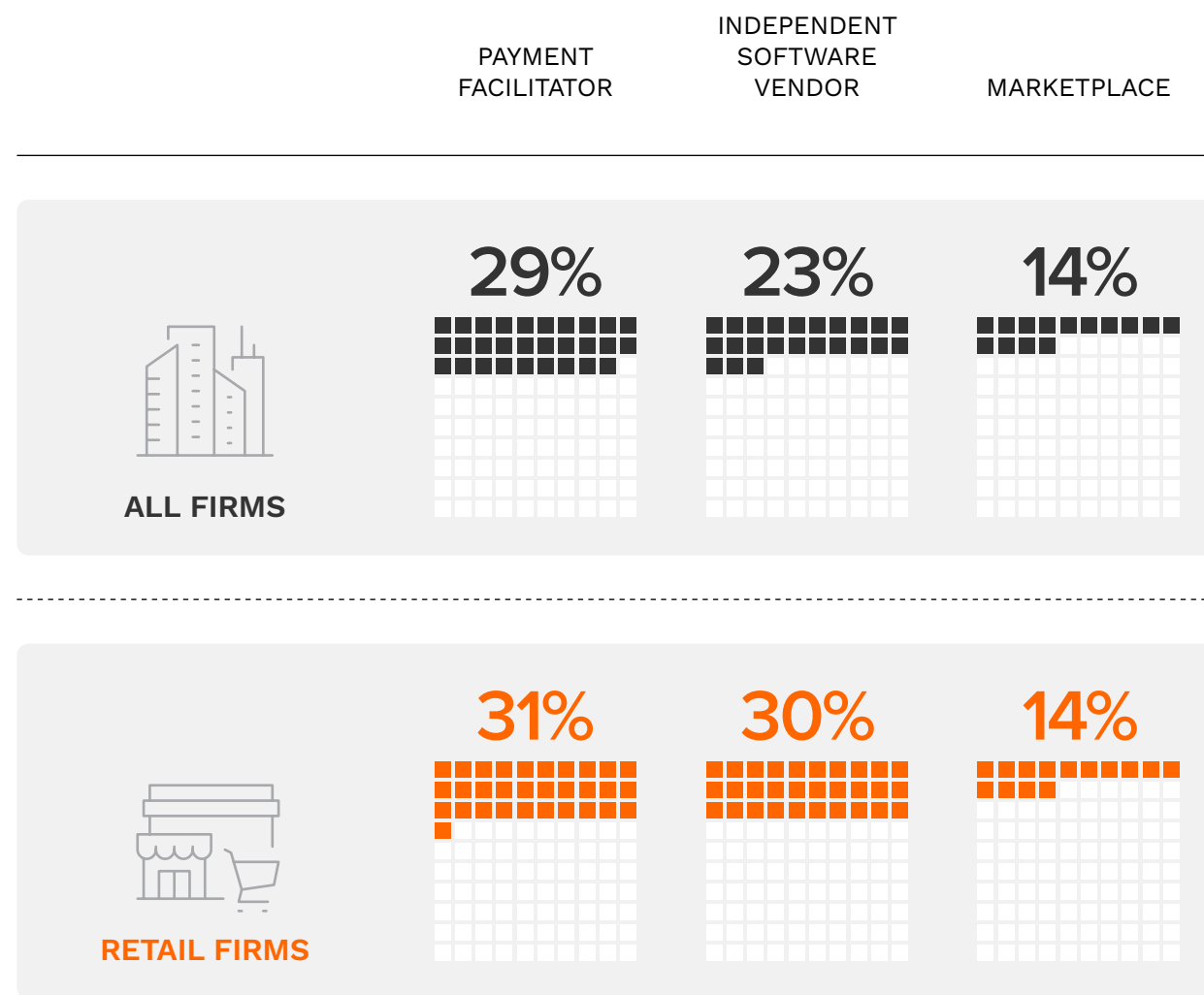
As for innovation strategies, retail ISVs and marketplaces share some similarities. Operational enhancements, for instance, are at the top of the innovation agenda for 37% of retail marketplaces, followed by strategic business growth, at 27%.

In contrast, retail ISVs distinguish themselves by placing higher priority on customer experience. Thirty percent of retail ISVs consider customer experience the most important factor for innovation, compared to the 23% average for ISVs across all industries in our study. This emphasis on customer experience likely reflects a strategic awareness of end-user satisfaction for maintaining a competitive advantage.

FIGURE 4:

The importance of the customer experience

Share of firms citing the customer experience as the most important factor driving their innovation agenda, by type of firm



Source: PYMNTS Intelligence
 Embedded Payments and the Retail Innovation Agenda, December 2023
 N = 282: Complete responses, fielded July 10, 2023 – Aug. 25, 2023

Retail PayFacs and marketplaces widely prioritize digital wallets and BNPL capabilities.

Retail PayFacs and marketplaces are increasingly focusing on digital wallets and BNPL services. Nearly 6 in 10 retail PayFacs and marketplaces either already offer or are highly interested in offering BNPL services — considerably higher than the 31% of retail ISVs that say the same.

In comparison, only 26% of retail transactions PayFacs processed involved digital wallets in the past year, marking the lowest rate across the industries studied and significantly less than the 35% ISVs processed for retailers. Despite this, 19% of retail PayFacs do not currently offer digital wallet options but express a strong desire to explore this avenue — nearly triple the 7.3% average across all industries included in our study. These findings suggest that although PayFacs currently lean toward BNPL services, the interest in exploring digital wallets points to a more holistic payments strategy looking forward.

56%

Share of retail ISVs that either **already facilitate payment acceptance or plan to innovate in this space**

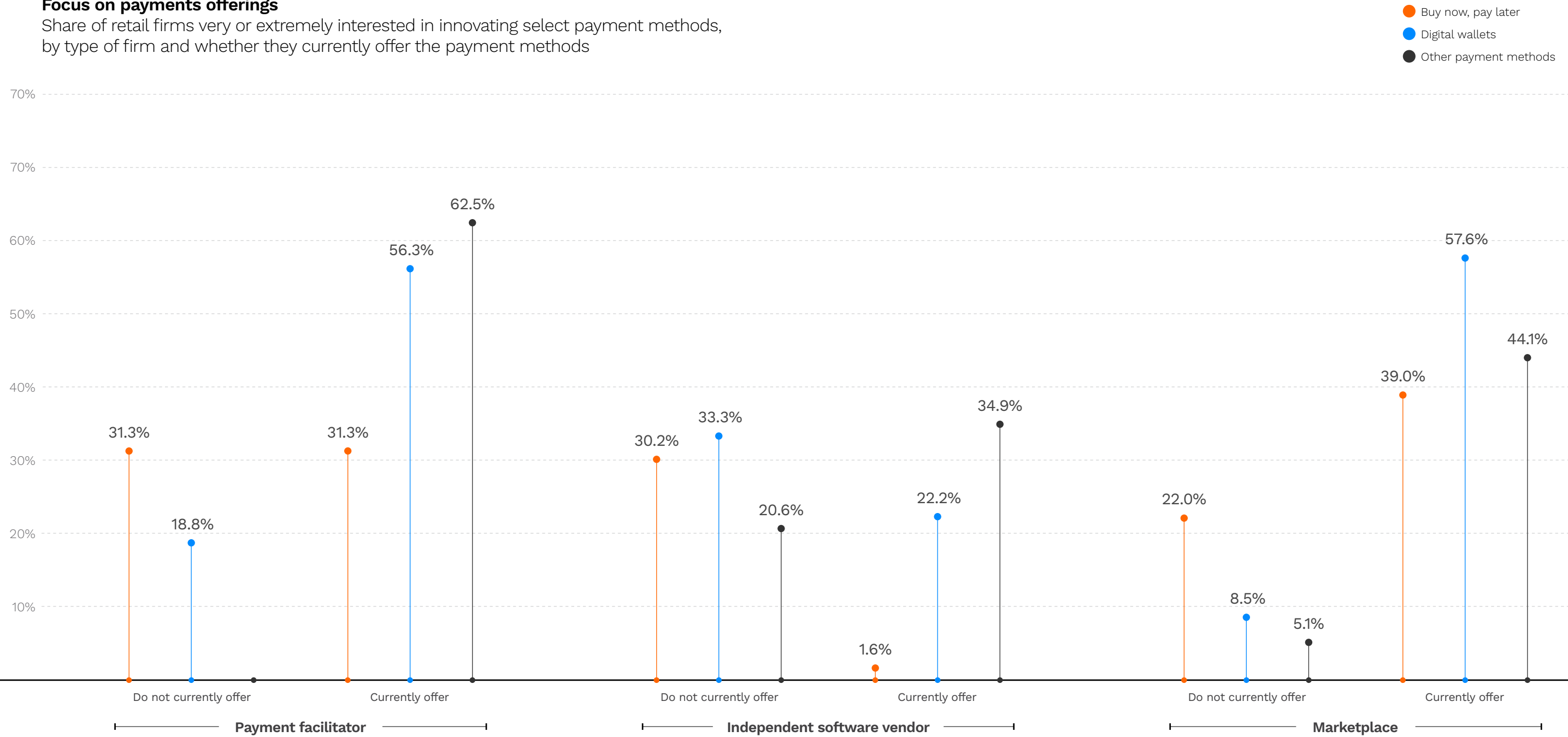
Retail ISVs have a different set of priorities, with a notable focus on expanding payment acceptance. Fifty-six percent of these ISVs are either already facilitating payment acceptance or planning to innovate in this space, surpassing the 44% average observed across all industries and the 49% average among retail marketplaces. Among retail ISVs, 21% are not currently offering payment acceptance but are highly interested in doing so — greater than the 15% average observed across all industries.

Among retail ISVs, 94% anticipate an increase in revenue from payment acceptance in the coming year, dwarfing the 60% of ISVs in multimedia and telecommunications or the 60% of retail marketplaces with similar expectations, which highlights the strategic focus retail ISVs are placing on payment acceptance as a key revenue stream.

FIGURE 5:

Focus on payments offerings

Share of retail firms very or extremely interested in innovating select payment methods, by type of firm and whether they currently offer the payment methods



Source: PYMNTS Intelligence
 Embedded Payments and the Retail Innovation Agenda, December 2023
 N = 282: Complete responses, fielded July 10, 2023 – Aug. 25, 2023

Economic uncertainties loom large for retail PayFacs, ISVs and marketplaces in the coming year.

Economic conditions, mainly borrowing costs and inflation, weigh heavily on retail-serving ISVs, with 7 in 10 indicating that these represent their biggest challenge in the coming year. Economic conditions are also a major concern for 38% of retail PayFacs and 41% of retail marketplaces — shared worry that underscores the impact of economic uncertainty on strategic planning and operational stability across the retail payments ecosystem.

Besides economic issues, retail PayFacs and marketplaces anticipate other obstacles. Workforce challenges are one area of prominent concern, with 31% of retail PayFacs predicting that it will be their largest hurdle in the next year, and 22% of retail marketplaces saying the same. This suggests a challenging year may be ahead for the retail sector.

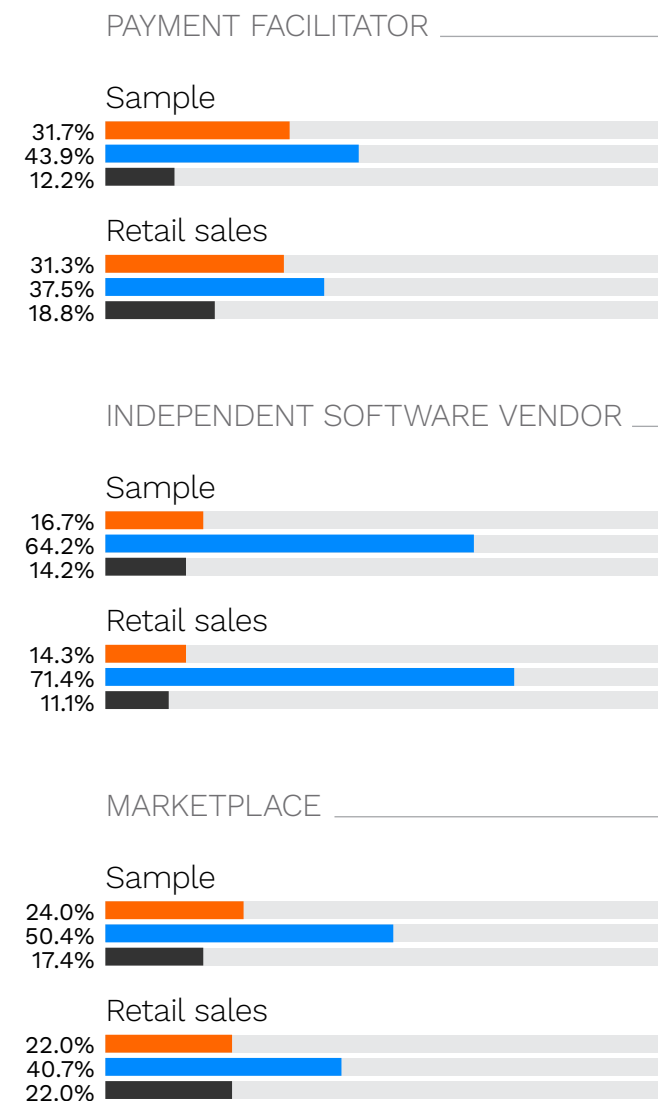
Economic uncertainties — particularly **borrowing costs and inflation** — represent the primary concern for

71% OF RETAIL ISVs.

FIGURE 6:

Additional challenges facing the payments ecosystem

Share of firms citing select challenges as the biggest challenge they face, by type of firm



- Workforce and human resources
- Economic conditions
- Market factors

Source: PYMNTS Intelligence
 Embedded Payments and the Retail Innovation Agenda,
 December 2023
 N = 282: Whole sample, fielded
 July 10, 2023 – Aug. 25, 2023

CONCLUSION

The retail payments landscape is bracing for a year fraught with challenges. Regulatory and compliance challenges, system integration issues and economic uncertainties overshadow the innovation agendas of retail PayFacs, ISVs and marketplaces. Despite these obstacles, many of these players remain enthusiastic about embracing modern payment solutions and expanding acceptance while voicing commitment to continue innovating in this space. With an emphasis on operational efficiency and customer experience, these payments stakeholders are poised to navigate potential obstacles, underscoring a resilience that speaks to the ecosystem's dynamic adaptability and promise.

METHODOLOGY

Embedded Payments and the Retail Innovation Agenda, a PYMNTS Intelligence and Carat from Fiserv collaboration, is based on a survey of 282 executives working at PayFacs, ISVs and marketplaces conducted from July 10 to Aug. 25. The report examines the state of play for PayFacs, ISVs and marketplaces in the retail sector and explores the innovation strategies and challenges these players face.

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