

by Ben Brown, 17 May 2024

Flagship's Reflection on Key Industry Themes Post Stripe Sessions

Introduction

Flagship was at the Stripe Sessions conference in California last month to meet with our SaaS and payments clients. It was a well-run event with several thousand attendees - and both San Francisco and the Moscone Center were delightful venues. Stripe announced more than 50 new product updates and showcased speakers like Larry Summers (former Secretary of the Treasury), Jensen Huang (CEO of Nvidia) and 20 other C-level executives across the Internet Economy. Flagship also joined the Stripe Partner Program as one of their recommended payment advisory partners for SaaS companies and enterprises that need help with growth, product and commercial strategy.

The volume of Stripe's product updates was impressive and a case study in how much merchant acquiring has shifted from a sales-driven industry to a product-driven one over the last decade. That has been a tough transition for many companies and acquirers that continue to focus most of their time on distribution partnerships, outbound sales, and pricing should make some time to look at whether they are still fundamentally offering a competitive product and customer experience.

Following our detailed breakdown of Stripe's announcements [here](#), it is worth paying particular attention to their new Vault & Forward API as well as their decoupling of value-added services (starting with Optimized Checkout, Billing, and Radar) from payment processing. These are both big strategic moves that make it easier for SaaS developers and enterprise merchants to work with Stripe. Other acquirers should look at whether these "open platform" moves are something worth responding to or replicating in their own business.

Flagship's Key Industry Takeaways

Looking beyond Stripe's individual announcements, we find the content, exhibit halls and 1:1 conversations at these industry events to provide a good barometer of what's happening in payments and fintech. Here is a brief summary of what we saw and what we believe it means for the future:

1. Focus on Enterprise and B2B

Stripe, Square, Affirm, Brex, and other breakout winners in the last wave of fintech innovation got their start making financial services easier for small merchants and startups, which were poorly served by existing mainstream providers. All of these companies have now expanded their focus to include enterprise customers and B2B - areas where trillions of dollars of money movement continues to flow via legacy systems. Stripe's most notable product updates at Sessions are intended to make Stripe a better solution for enterprise

clients. Mainstream providers should expect the next few years to be more volatile as innovators turn their attention towards the enterprise and B2B payments.

2. All Payments Will Be Integrated

The natural fit of payments within business software is a surprise to no one - ISVs have been building payments into POS solutions since the early 2000s (remember, Lightspeed launched in 2005 with one of the first integrated POS solutions for SMBs) and Silicon Valley has focused on it since Square Register and Clover launched in the early 2010s. Stripe announced that 13,000 platforms use Stripe Connect to enable payments for more than 8 million SMBs, which is in-line with the broader trend: today, ISVs are the single-largest distribution channel for merchant services in the U.S., UK, and EU (and the majority of new digital-first accounts in the U.S. and UK in 2023) according to Flagship's research. Integrated and embedded payments result in lower CAC, higher pricing, lower attrition, and a normal chargeback profile relative to standalone payments. We expect effectively all SMB payments to be sold through integrated solutions in the future, so any payment processor without an ISV strategy should have a clear rationale why not.

3. Embedded Finance is the Future

There are many other types of financial services that could benefit from the same SMB distribution advantages as integrated payments: business lending, BNPL and branded credit, business banking, payroll, benefits, insurance, spend management, and more. Our team at Flagship has worked on some of these product expansions and seen the impact; to point to two public examples, Square has facilitated more than \$14 billion of small business loans since launching its product a decade ago and Shopify reported the recipients of its loans grow 36% faster than their peers. Stripe's John Collison agreed, saying that Stripe finds "that offering Financial Services to the end businesses tends to just work tremendously well for those platforms." Tom Aveston (the CFO of Mindbody) shared that after 15 years providing payments and credit, Mindbody plans to add banking, payroll, insurance, collective purchasing, and more. As embedded payments becomes a given, we believe platforms that provide embedded finance offerings relevant to their brand will outperform their peers in the years to come. This could be an area where diversified processors (FIS, Fiserv, Global Payments) have an advantage by bringing their other businesses (and bank clients) to the table to enable embedded finance offerings for ISVs.

4. Great Fintech Unbundling

In the early days of this latest wave of fintech innovation, it was common to talk about "fintechs unbundling the bank," with dozens of point solutions appearing to attack every part of the typical multi-line product set of a large commercial bank like JPMorgan Chase or Wells Fargo. Over time those entrants have continued to invest in product and moved far beyond their origins: Stripe and Square now each advertise 20+ different products, Adyen has more than 10, Brex has at least a half-dozen. Stripe's announcement that it will start to make its value-added services like Optimized Checkout, Billing subscription management, and Radar fraud prevention available to companies that don't use its payment processing is part of a trend of fintech companies voluntarily unbundling themselves. For example, Navan launched a "bring your own card" solution (Navan Connect) last year that lets people use its spend management solution with third-party corporate cards and Intuit allows customers to use its QuickBooks Money product (a business bank account with payment processing) without using its core QuickBooks Online accounting product. Innovators have long recognized the strategic importance of value-added services; now they are looking for natural opportunities to monetize them directly (our recent Flagship research found that PSPs should derive 15-30% of net revenues from VAS).

5. New Forms of Payments

The last ten years have seen a dramatic shift of consumer payments from cash to card. Today, more than 78% of U.S. consumer payments are facilitated through card. But the global payment landscape is much more complex with many forms of non-card digital payments, including stored value wallets, bank buttons, open invoice and prepaid vouchers, and more. We are likely to see more of that complexity come to the U.S. in the next few years (while non-U.S. markets benefit from many more years of cash conversion). This will be good for consumers, who gain choice; good for merchants, who will see more competition in payments; and good for acquirers, who can help enable new payment options like pay by bank, BNPL, and digital currencies.

6. Innovation Under the Surface

Attendees at Stripe Sessions were not just talking about how people pay - they were also talking about how payments work. The operational transformation of payments (and financial services generally) through data and automation is coming and it's hard to overstate the importance. Klarna, for example, has applied generative AI to its customer support operations and reduced the average handling time per case by more than 80% (from 11 minutes to 2 minutes) and Stripe is deploying AI to personalize checkout experiences for millions of individual consumers in real-time. Issuers and merchants are both looking at how direct integrations to share data in real time can better feed analytical models to prevent risk and improve reconciliation. Innovation is not just what you see, it's also happening behind the scenes, and we are likely to see more focus on that in the years to come.

Flagship will continue to be present at industry conferences and trade shows in the U.S. and Europe over the coming months. Some events on our calendar include Money20/20 (in Amsterdam in June and Las Vegas in October), TreviPay Crossroads, SaaStr, and more, in addition to our own upcoming Flagship-hosted events in DC and NYC. We look forward to seeing you all out there.

Please do not hesitate to contact Ben Brown at Ben@FlagshipAP.com with comments or questions.