



WHITE PAPER

# From Merchant Acquiring to Merchant Services

The Race for End-to-end Merchant Relevance Is On

February 2025

By Inderpreet Batra, Stanislas Nowicki, Chris Blaine, Marion Graizon, Akram Lemseffer, and Ankit Mathur

# From Merchant Acquiring to Merchant Services

## The Race for End-to-end Merchant Relevance Is On

**The global acquiring market is undergoing profound changes** - shifting away from traditional acquiring and acceptance activities, and towards a broader software and services focus.

As core payment processing activities become increasingly commoditized, market players are turning to broader offerings to defend price levels and unlock additional value.

These new service offerings often extend beyond payments to not only include value-added services, but daily operational services such as payroll, accounting, and inventory management. More advanced financial services (e.g., working capital loans, instant settlements, and commercial card issuing) are also becoming integral to the offerings of leading players.

The acquiring landscape is no longer limited to processing payments, but is expanding to meet the growing operational and financial needs of merchants. At the same time, competition within the market has intensified, particularly from digital-native payment providers and software platforms.

On the one hand, competition has moved up the value chain toward services, with nimble new entrants offering more robust, integrated solutions. On the other, the distribution model is being disrupted, with merchants increasingly engaging directly with software providers for their payment needs.

In this new paradigm, industry players must adapt their strategies to maintain their competitive position and value share. This will require them to rethink their value propositions, distribution, and partnership models while leveraging their starting positions and right to win.

## The Market Definition Has Changed

Having evolved beyond traditional acceptance and acquiring activities, today’s market now includes three primary layers:

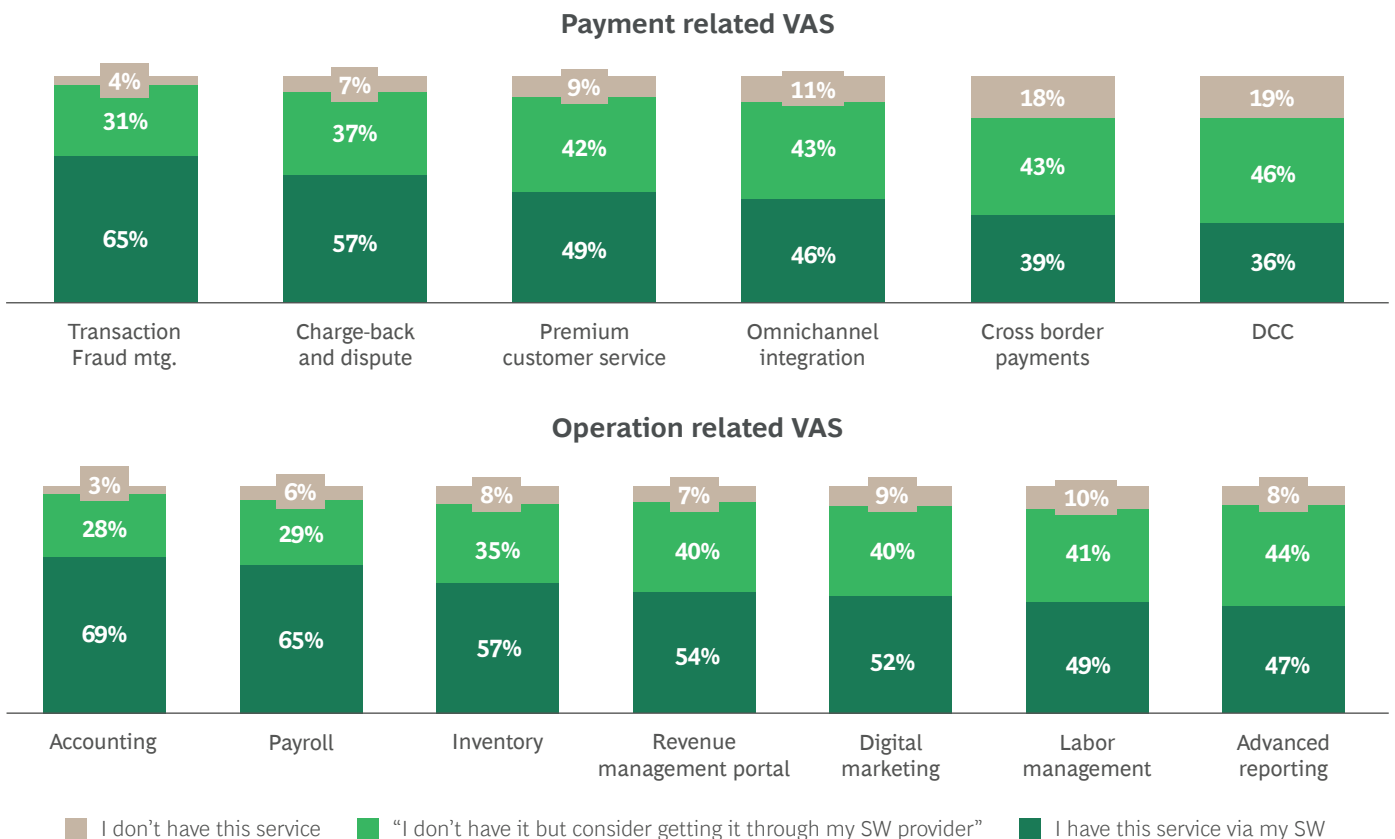
- 1. Core Acceptance and Acquiring:** These remain foundational but are increasingly commoditised activities.
- 2. Value-Added Services (VAS):** Increasingly sought by merchants, these broader services (e.g., chargeback and dispute management, payroll, accounting) are either bundled by acquirers in their base offers, or billed on top.
- 3. Embedded Financial Services:** More advanced offerings - such as working capital loans, same-day settlements, and issuing commercial cards - are now integral to many acquirers’ service portfolios. These are key to addressing specific merchant needs and driving differentiation.

Acquirers are responding to these market shifts by bundling more services into their offerings, allowing them to tap into higher-margin revenue streams beyond traditional payment processing. This also helps to address the growing merchant demand for more sophisticated, tailored services.

## Exhibit 1 - Merchants have a growing appetite for richer offers, tailored to their industry vertical needs

### Strong penetration of value-added services beyond payment, still rising

“Do you currently have any of the following services from the software platform(s) you use to run your business?”



## Acquiring Growth Slows

Core acquiring activities are getting commoditized in both the U.S. and Europe, resulting in a notable slowdown in growth. **In the U.S.**, this commoditization is driven by two key factors:

1. Volume saturation caused by high card and e-commerce penetration (over 80%), leaving little room for further growth.
2. The increase in competition and regulatory measures, resulting in mounting price pressure.

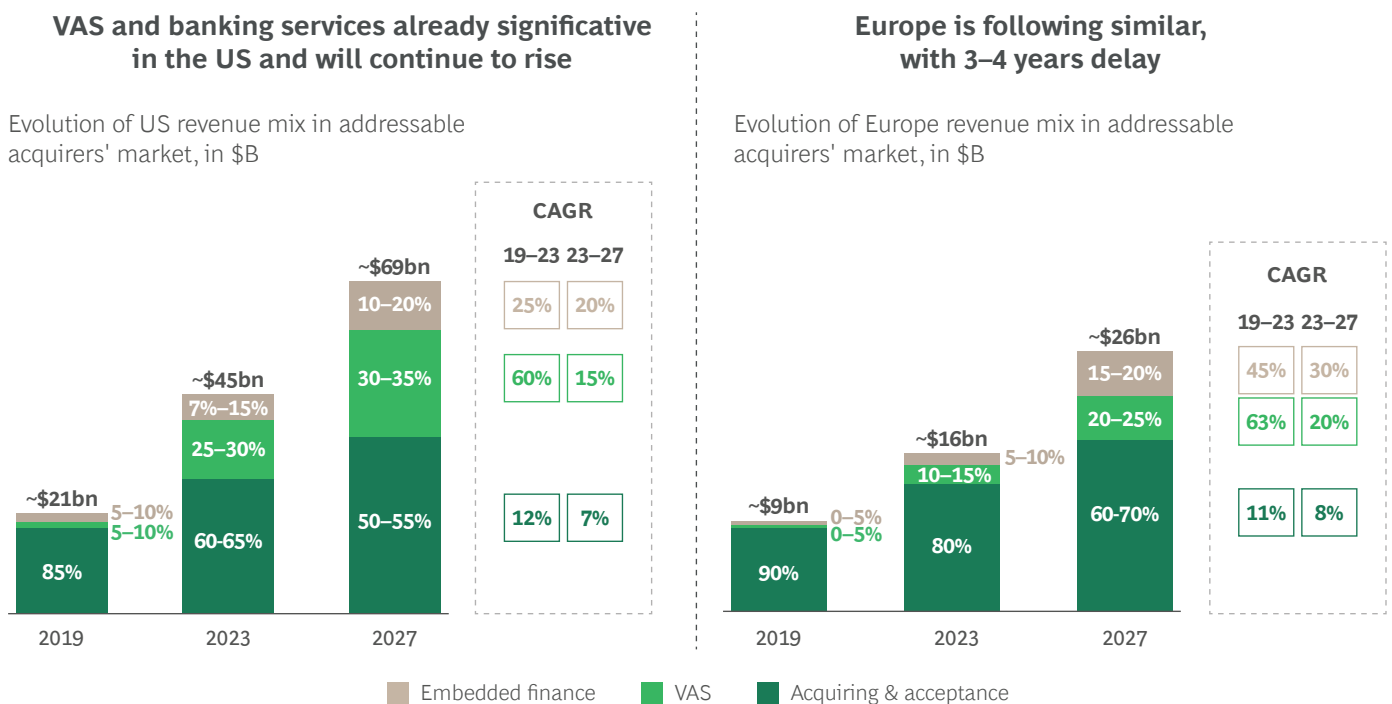
As market saturation intensifies, the compound annual growth rate (CAGR) for acquiring is projected to drop **from 12% (2019-2023) to 7% (2023-2027)**.

**In Europe**, commoditization is also taking place, though at a more gradual pace due to the region's market heterogeneity. Cashless countries like the Nordics and the UK follow similar trends to the U.S., with pressure on both price and volume. However, markets such as France and Spain, still offer volume growth opportunities, driven by ongoing cash-to-card conversion, evolving POS infrastructure, and increasing e-commerce adoption.

In cash countries like Germany, significant growth potential remains, thanks to its dynamic cash-to-card transition. Overall, the European market is expected to see a slowdown in CAGR **from 11% to 8% over the same period**.

This slowdown is being offset by the rapid growth of VAS and embedded financial services, which are expected to grow respectively at 15-20% and 20-30% CAGR (2023-2027). These services will soon constitute the majority of acquirers' revenues, potentially accounting for more than 50% in the U.S. by 2027, and the same in Europe 3 to 4 years later.

## Exhibit 2 - Services will represent most of acquirers' revenues, as historical acquiring/acceptance activities are being commoditized



Source: BCG GPM 2023; BCG analysis.

Note: CAGR rounded to the closest unit; Acquiring and Acceptance include Core acquiring from GPM 2024 model, and market size of POS rental and resale.

## The Continued Success of Software Platforms

Software platforms are now widely adopted by SMBs across the U.S. and Western Europe, with penetration rates spanning from 65% to 75%. Their influence is even more pronounced in B2C verticals, where surveyed businesses report adoption levels ranging from 80% to 85%.

The adoption of vertical software into daily B2C business operations is also widespread, with usage rates between 50 and 60%. This trend is growing fast, as demonstrated by the 20 percentage point growth in the U.S. since 2022.

Meanwhile, the adoption of payment processing via these platforms is accelerating rapidly, affecting one in two merchants who switched processors in the past two years. Penetration within B2C industries ranges now from 45% to 75%, with the U.S. leading the shift - driven primarily by vertical softwares, which account for an average of two-thirds of total adoption.

Software platforms are winning over merchant relationships. Often seen as the primary advisor or decision-maker, they influence the choice of payment processors and directly manage 60 to 70% of their clients' payment processing contracts. Their customer retention rates are unmatched, with a stickiness rate 2.5 times higher than traditional providers, and the highest average Net Promoter Score (NPS) for customer satisfaction.

Additionally, software platforms are successfully tapping into merchants' appetites for more comprehensive offerings – with those using software for payments consuming 18 percentage points more VAS on average. While the adoption of banking and financial services through software providers is still in its early stages, more than a third of merchants have shown interest in subscribing to these services through their software in the coming years.

## All Players Must Adapt: Solving the Coopetition Trade-off

In this context, incumbents, especially in the SMB segment, face increasing pressure from digital natives and software platforms offering richer, end-to-end, vertical-specific solutions. Players are affected differently by these shifts and must respond based on their respective starting points and rights to win.

### BANKS

**Banks are losing attractiveness** to new entrants, digital natives and software platforms, due to the end-to-end offerings and seamless digital journeys these competitors provide. Merchants are increasingly integrating payments within these platforms and contracting directly, while digital natives increasingly partner with software platforms for payment processing.

However, banks still hold an advantage with their extensive distribution networks and large, loyal customer bases, who value their relationships and report high satisfaction. Additionally, banks can leverage their deep expertise in financial products and underlying licenses to offer embedded banking services.

To defend their current positioning, **banks have two main options:**

- 1. Partner with other ecosystem players** to deliver a competitive, packaged payment solution integrated with software platforms. This solution should include core acquiring, VAS, and embedded finance, using either a vertical-agnostic approach to maximize reach, or a vertical-specific one to secure relevance.
- 2. Compete with software platforms** by offering a vertical, end-to-end solution, including relevant software features (e.g., Bank of America's suite for restaurants, retail, and e-commerce).

## MONOLINERS

**Traditional monoliners also face pressure** from new entrants. Their offerings tend to lag in key areas, with limited ability to provide tailored vertical solutions or value beyond basic services – this is compounded by lacking embedded finance expertise. Other key challenges for monoliners include lower levels of customer satisfaction.

**But monoliners can leverage their large scale for competitive pricing**, the ability to offer customized solutions for larger SMBs, and their strong integration capabilities to remain competitive in the market. They can adopt or combine the following strategies:

- 1. Aim for scale and volume** by developing a highly competitive white label offering, which includes basic VAS. This approach can be tailored to capture more value by incorporating specific vertical features.
- 2. Compete with software platforms** by building vertical, end-to-end solutions, including relevant software features.

## DIGITAL-NATIVE PSPS

**Digital-native PSPs** benefit from strong momentum, leveraging superior end-to-end digital solutions, effective digital distribution, and partnerships. They also harness the advantages of software platforms and exceptional customer experience.

Despite this, they face the risk of being disintermediated by software platforms, which are increasingly capturing merchant relationships and a portion of the value share. This growing influence of software platforms poses a potential challenge to digital natives' ability to maintain direct control over customer relationships and market positioning.

To address this, digital natives could:

- 1. Focus on scaling by expanding partnerships** with software platforms.
- 2. Compete directly with software platforms** by creating their own software features in a given vertical.

## SOFTWARE PLATFORMS

**Software platforms** hold the strongest momentum in the market at the moment in our view, due to their ability to natively integrate payments and leverage their ecosystems to offer end-to-end solutions tailored to specific verticals.

They are successfully capturing merchant relationships, benefiting from the highest levels of customer satisfaction, and delivering superior services to their clients.

However, many software platforms lack payment processing expertise and capabilities, as payments are not their core business. This could limit their ability to fully dominate this space without external partnerships or acquisitions. Software platform providers could:

- 1. Continue to leverage the broader payment ecosystem**, partnering with banks and PSPs while **increasing their value share** as their distribution position becomes more prominent
- 4. Compete with the ecosystem**, developing their own end-to-end solutions that include in-house payment-related features, operating independently from banks and PSPs.

## Continue the Conversation

**T**hese insights serve as a summary of our general recommendations for different player archetypes in the evolving acquiring space globally, but realities differ on a market-by-market basis. To begin a more in-depth conversation on any of these topics, **please reach out to our author team!**

# About the Authors

**Inderpreet Batra**, Managing Director and Senior Partner, Global Payments Lead

**Stanislas Nowicki**, Managing Director and Partner, Global Acquiring Lead

**Chris Blaine**, Managing Director and Partner, Private Equity

**Marion Graizon**, Managing Director and Partner, Customer Experience Expert

**Akram Lemseffer**, Project Leader

**Ankit Mathur**, Senior Director, Payments and Fintech

## For Further Contact

If you would like to discuss this report, please contact the authors.

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organizations to grow, build sustainable competitive advantage, and drive positive societal impact.

Our diverse, global teams bring deep industry and functional expertise and a range of perspectives that question the status quo and spark change. BCG delivers solutions through leading-edge management consulting, technology and design, and corporate and digital ventures. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, fueled by the goal of helping our clients thrive and enabling them to make the world a better place.

For information or permission to reprint, please contact BCG at [permissions@bcg.com](mailto:permissions@bcg.com). To find the latest BCG content and register to receive e-alerts on this topic or others, please visit [bcg.com](https://bcg.com). Follow Boston Consulting Group on [Facebook](#) and [X \(formerly Twitter\)](#).

© Boston Consulting Group 2025. All rights reserved. 2/25

