

WHITE PAPER

# Surviving the Merchant Acquiring Paradigm Shift

Acquirers are facing disruption from every angle. Under the pressure of shifting merchant behaviours, and with signs of overcapacity reflected in the market, both traditional and newer players are being forced to innovate and expand their remits. While new entrants into the acquiring space must also navigate this disruption, the current scenario poses an existential threat for incumbents in particular.

From platforms driving demand for vertical, embedded services, to instant payment solutions challenging card rails, we are witnessing a global acquiring paradigm shift. This evolution is being fuelled by factors including technology adoption, geography, market maturity, and local trends, resulting in a new reality that acquirers must adapt to.

While incumbents are under threat, those that swiftly take the right steps to evolve will gain a new competitive edge. In this article, we will examine the changing acquiring landscape, the driving forces that are at work, and the key actions that banks, digital natives and others need to take.

## **Merchant Evolution Drives Disruption**

The evolution we are witnessing can be summarised with several key examples. One primary factor is the increasing dominance of platforms and marketplaces in payments and commerce, as well as the professionalisation of payments functions within large merchants. In addition to these examples, the increasing sophistication of omnichannel journeys is also putting pressure on acquirers to deliver.

The growing adoption of software solutions with embedded finance functionality by SMEs is at the very heart of the disruption we are witnessing. For example, payment processing adoption through platforms is expected to climb from 34% to 75% in coming years, representing both an existential threat, and a potential opportunity for those who strategise and act.

Meanwhile, large merchants are adapting the ways in which they offer and operate payments, whether by setting up payments orchestration to compare performance and allocate payment flows, or by recruiting payments managers to professionalize their payment functions. In turn, this further increases the level of competition. One extreme symptom is the uptick in merchants exploring cheaper alternatives to card payments, with alternative methods growing three times as quickly.

Further disruption is expected from increasingly sophisticated and personalized omnichannel journeys, with merchants now rapidly adopting them. E-commerce sales continue to grow at a sustained pace (10% CAGR between 2022 and 2026 globally), with cross-border e-commerce (55% CAGR) largely outpacing domestic e-commerce.

Sophisticated data models combined with Generative AI will continue to power the rise of omnichannel solutions and personalisation, making way for virtual shopping and other forms of multi-channel convenience. Because of these factors, the need for incumbent acquirers to adapt will grow significantly.

## The Growing Risk of Commoditisation

According to the BCG Global Payments Model, merchant acquiring revenues are expected to grow at an average CAGR of 6.9% between 2022 and 2027. SME omnichannel payments being the most significant driver of acquiring revenues growth during this period, with a CAGR of 10.4%.

With this growth in mind, the industry is becoming more challenging for everyone to succeed in, and even greater pressure will be applied to incumbents and new entrants to innovate and develop the right strategies. Significant investment in the acquiring industry has resulted in excess capacity, making it more difficult for major players to sustain growth rates and their share of total transactions.

Compounding these challenges, incumbents have seen innovative rivals looking beyond their niches in a bid to maintain their hard-won growth. For instance, next generation players are now reaching into the remits of banks, offering a broader range of financial services than traditional acquirers, and relying on banking licenses to do so. Another example is seen in traditional acquirers accelerating their ISV strategies, both organically and inorganically.

## Looking to the Future

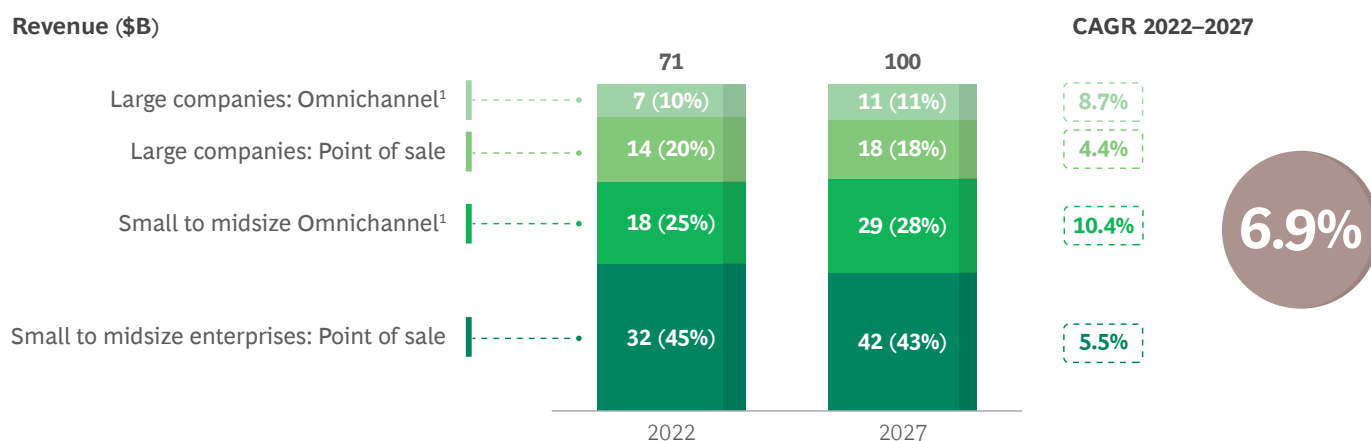
As we look ahead, one can expect four key dimensions to shape the future industry: enhanced competition, commoditisation, verticalisation and increased cost scrutiny.

We can expect slowing growth rates, recently compressed fundings levels, investor scrutiny on profitability, and diversifying players to increase competition. Continued commoditisation will either push players to expand their area of play, or to consolidate further. Accelerated verticalization in the SME segment will be delivered through more vertical-specific software-enabled offerings. Greater professionalisation and orchestration of payments will increase cost and conversion scrutiny.

We believe two main scenarios may emerge, including a general increase in sophistication or greater polarisation. Levels of sophistication will grow as incumbents and next gen players compete for the most attractive revenue pools, embedding more services around core acquiring during the process. Increased polarisation would be most apparent in players choosing to either deliver cost-efficient, no-frills solutions, or those aiming to compete by providing more technical, advanced solutions.

In either scenario, addressing the most attractive revenue pools will require incumbents to deploy an effective product mix and a differentiated strategy, in addition to making defensive structural moves. Failure to do this will risk the loss of an even greater revenue share as disruption increases. Although next gen players are currently leading the way on the integration of embedded services, we expect incumbents to rebound by 2025, or be forced to serve the less attractive segments that next gen players will leave underserved.

# Global Merchant Acquiring Revenue Will Reach \$100B by 2027



## Our Recommendations

Whether you are a bank, an incumbent acquiring monoliner, a digital native, or an integrated software vendor (ISV), different approaches will be required to successfully navigate this paradigm shift. Although incumbents face the challenging task of catching up and keeping pace with the innovation of digital natives and ISVs, newer players will have to strive to become profitable and integrate successfully.

**Banks** will need to focus on customer segments where they have the right to play, and seek partnerships with monoliners. Enriching and verticalising product offerings will be crucial, which should involve the bundling of existing financial products with payments capabilities. Doubling down on delivering effective customer journeys and modernising go-to-market strategies is also key to survival, particularly when it comes to moving beyond branches and embracing digital channels.

**Incumbent monoliners** must further optimise their processing costs by overhauling their IT platforms, in addition to optimising their organisations through delayering and DevOps transformation. Carefully selecting the right GenAI use cases and integrating them at scale will offer significant advantages, as will working to boost onboarding processes. Expanding beyond core acquiring will also be necessary to win back revenue share, as will a thorough review of distribution strategies.

**Digital natives** would be well advised to continue building differentiation through customer journey excellence, and by developing all-in-one omnichannel offerings. Advantages for digital natives can also be unlocked by optimising their pricing strategies and working with ISVs to improve their distribution models. Building a suite of value-added services with a focus on data is also set to be a crucial differentiating factor.

**Integrated software vendors** should identify one or two priority verticals and establish leadership in those areas, while simultaneously enriching their offerings by forming partnerships. Above all, demonstrating an ability to achieve growth and profitability will be critical to success. Developing market payment playbooks and creating embedded finance products will also be highly valuable.

These insights serve as a summary of our general recommendations for each player archetype in the evolving acquiring space. To begin a more in-depth conversation on any of these areas, please reach out to our expert team!

# About the Authors

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