

A smiling woman with brown hair, wearing a white long-sleeved shirt and a green apron, is handing a yellow card to a customer's hand. They are at a wooden desk with a laptop, a calculator, and a smartphone. The background is a blurred floral arrangement.

EMBEDDED PAYMENTS
Pricing Guide
for vertical SaaS platforms

Preface

When platforms hear about the success of companies like Toast or Shopify at monetizing payments, it's tempting to think they can just embed Stripe and double their revenue overnight.

Unfortunately as easy as payments have become in many ways, there's still an immense amount of complexity involved. The complexity has shifted from payments itself to making payments work most effectively driving payments adoption for your specific platform.

This requires a deep understanding of the dynamics of your market and the strategy/capabilities of your platform as that intersects with what's possible with payment tech and economics. There is no one-size-fits-all profit-maximizing strategy, even for two different platforms in the same industry.

The point of this guide is to illuminate the different factors in building a successful payments strategy and help you determine the best path to success for your particular platform.

Contents

1. Why embedded payments?
2. Pricing essentials
3. Determine your advertised price
4. Calculate your minimum price
5. ACH pricing
6. Go-to-market considerations
7. Next steps

The image displays two overlapping screenshots of the Denise's Gym management app. The background screenshot shows a 'Report' page with a table of transactions. The foreground screenshot shows a payment confirmation screen for a \$100.00 transaction.

Denise's Gym
Powered by Gym Management App

Home Payments Calendar Billing Settings Reece Simpson Admin

Report

Created	Type	Status	Product	Amount	Customer	Method
11/21, 11:18AM	Payin	Succeeded	Personal Training	\$150.00	Oscar Firmy	1234
11/14, 3:08PM	Payin	Failed	Membership	\$65.00	Van Hayes	7685
11/14, 1:55PM	Refund	Cancelled	Spa	\$20.00	Darrell Steward	4126
11/14, 1:53PM	Payin	Succeeded	Personal Training	\$80.00	Chelsey Hirthe	1442
11/6, 10:36AM	Payin	Processing	Fitness Class	\$25.00	Laurie Gusikowski	9686
11/1, 5:06PM	Payin	Processing	Beverage	\$1.00	Coralie Cormier	5647
10/25, 4:25PM	Payin	Succeeded	Membership	\$120.00	Miles Sporer	3246
9/27, 10:18PM	Refund	Succeeded	Membership	\$63.99	Bernadine Shultz	8623
9/27, 7:46PM	Refund	Succeeded	Beverage	\$2.00	Lena Patel	6235
9/8, 8:34AM	Payin	Succeeded	Protein Bar	\$1.50	Jane Doe	8752

10-20 out of 96 results

9:41

Denise's Gym
Powered by Gym Management App

Bank transfer Credit card

Apple Pay

Or pay with card

Card information

1234 5678 9012 3456

1230 971

Country information

United States

85486

Pay \$100.00

1.

Why embedded payments?



Drive 2x-5x revenue per user.

SaaS companies are driving an increasing share of growth by expanding existing accounts.^{1,2}

Meanwhile, a scaled SaaS company needs to be generating \$300k revenue per employee in order to IPO, compared to around \$100k just a few years ago.²

In other words, the most successful SaaS companies are increasing revenue per user and they're doing it more efficiently than ever before.

One way to do this is embedded payments.

Mindbody, Shopify, and Clio are examples of scaled vertical SaaS companies generating significant revenue from payments.

These aren't outliers. According to Anderseen Horowitz, SaaS companies can drive 2x - 5x revenue per user by adding embedded finance.⁴

Embedded payments isn't just an "advanced" strategy for scaled companies. Earlier-stage and mid-market SaaS companies can benefit from embedded payments, too – if they have the right strategy and the partner.

¹ <https://chartmogul.com/reports/saas-retention-the-new-normal/>

² <https://chartmogul.com/blog/saas-growth-remains-slow-throughout-h1-2024/>

³ <https://www.saastr.com/yes-everyone-has-to-be-2x-as-efficient-as-they-used-to-be-its-just-math/>

⁴ <https://a16z.com/fintech-scales-vertical-saas/>

⁵ <https://www.squarepeg.vc/blog/embedded-finance-the-revenue-amplifier>

⁶ <https://scaleviewpartners.com/founders-hub/five-observations-from-clios-900m-series-f>

Mindbody

Fitness center management platform

Embedded payments accounts for > 50% of revenue⁵

Shopify

eCommerce platform

Merchant solutions was 74% of revenue in 2023 and the primary revenue driver within merchant solutions is payment processing⁵

Clio

Legal tech platform

Doubled ARR from \$100M in 2022 to \$200M in 2024, attributing growth to AI and payments.⁶

Here's a concrete example adapted from Matrix partner Matt Brown's article on invisible asymptotes in vertical SaaS.⁷

Let's say there's a SaaS platform for law firms and start with some assumptions:

- There are 100,000 law firms in the market
- Average of 10 employees per firm
- Core SaaS product is \$49 per user per month
- Law firms average \$1M annual revenue

This SaaS platform doubles their revenue without adding a single user.

Furthermore, embedded payments revenue tends to be low cost and high margin (more on this later), so the SaaS platform materially increases their overall margin as well.

⁷ <https://notes.mtb.xyz/p/invisible-asymptotes-vertical-software>

SaaS fees only

Platform earns \$49 per user x 10 users per firm x 12 months = \$5,888 per law firm.

Platform's growth is limited by the number of law firms and the size of the law firms' teams.

Average annual revenue per law firm = \$5,888

The total addressable market is = \$588M/yr



After adding embedded payments

Platform earns 50 - 100 basis points (0.50% - 1.00%) on every dollar that the law firms invoice and collect on the platform.

This adds \$5,000/yr in revenue from each law firm (\$1M/yr revenue x 50 basis points).

Average annual revenue per law firm = \$10,888

Total addressable market doubles to > \$1B/yr

Merchants want embedded payments.

While SaaS overall is getting more competitive, embedded payments are getting easier, and merchants *want* embedded payments. Merchants are voting with their processing volume as they migrate from legacy acquirers to modern software platforms.

Boston Consulting Group

The percentage of businesses using vertical software increased from 30% in 2018 to 50% in 2022

As of 2022, ISVs account for 29% of merchant acquiring revenue, and their share is expected to increase to 37% by 2025

As of 2022, traditional acquirers have 59% share, projected to decline to 47% by 2025

Bain & Company

“Financial services embedded into e-commerce and other software platforms accounted for \$2.6 trillion, or nearly 5%, of total US financial transactions in 2021, and by 2026 will exceed \$7 trillion, our research finds.”

UBS

SMBs account for 25-30% of US payment volume but 65-70% of net revenues

SMB direct merchant acquiring revenue is expected to decline from ~26% of total acquiring revenue in 2022 to ~14% in 2027.

ISV acquiring revenue is expected to increase from ~24% to ~33% during that time

SMBs account for less than a third of US payment volume but approximately two thirds of net payment processing revenues. In other words, **the SMBs that most vertical SaaS platforms serve are the most profitable payment processing segment** in the market.

This represents a massive revenue opportunity for vertical SaaS platforms. And **vertical SaaS platforms can create value for these SMBs by providing a fully embedded payments experience that saves time with in-context reporting and easy reconciliation.**

⁸ Boston Consulting Group, "SMB Merchant Acquiring: Software is eating the world (and revenue pools)", May 2022

⁹ Bain & Company, "Embedded Finance: What It Takes to Prosper in the New Value Chain", September 2022

¹⁰ UBS, "The Question 3.0 A framework for sizing and analyzing the various swimlanes of the US merchant acquiring market", June 2023

Should platforms make money on payments?

SaaS leaders usually add embedded payments for one of two reasons:

- A) Drive revenue
- B) Increase retention

When embedded payments are done well, you don't have to choose. The successful payments product will drive revenue and increase retention.

Discounting payments to boost retention is either unnecessary or ineffective, depending on the situation.

If the core SaaS product is an high-value end-to-end solution and the embedded payments product saves time for merchants, then merchants are willing to pay higher prices.

In this situation, **you don't have to price payments at cost to promote retention.** It's just not necessary because the combined SaaS + payments product is so valuable.

If retention is low because the core SaaS product isn't ingrained in merchants' day-to-day, saving them time and helping them grow revenue, embedded payments won't fix an underperforming SaaS product.

Even if you temporarily boost retention with low-cost payment processing, you'll constantly be competing on price.

Product first, then payments.

A comprehensive vertical SaaS product with a high-quality embedded payments implementation will drive revenue and increase retention – you won't have to price payments at cost to promote adoption or retention. Conversely, if the core SaaS product isn't sticky enough, embedded payments won't fix it without first optimizing the core SaaS product.

Embedded payments are most successful when added to a robust product that merchants already rely on.

2.

Pricing essentials



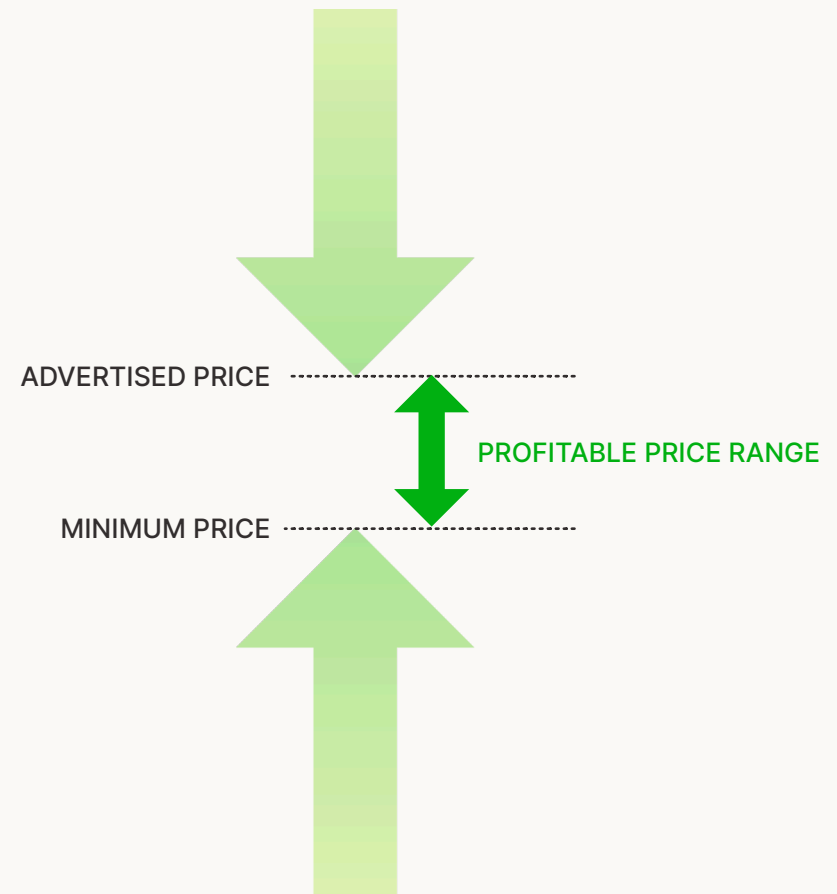
Two approaches to payments pricing

One of the most common questions we hear about pricing is “How much should SaaS platforms mark up embedded payments?”

That question will be answered (we promise!) but the mark-up is only half of the pricing equation. In order to understand the range of prices you could charge, we recommend looking at pricing from both the top-down and bottom-up perspectives.

The top-down price is going to be the advertised price. This means examining your competitors, the overall price-sensitivity of your customers, and the value of your product.

When we build the bottom-up price, we’ll look at your costs and desired margin to determine the minimum price you can charge and earn your desired margin. This is an important data point for your business, but it probably won’t be the price you advertise or the highest price you can ask!



How do we balance competitive pricing with maintaining healthy margins?

Complete both the top-down and bottom-up estimates outlined in this guide! The bottom-up estimate is the lowest price you can charge and earn your desired margin. The top-down estimate is the highest price your customers will be willing to pay. The result will be a range, where you can advertise a price at the top of the range but offer prices lower in the range to key customers.

Key terms and concepts

In card processing, you'll see a lot of price tags that include both a percentage and a fixed dollars-and-cents amount. The percentage is a "volume fee", and the fixed amount is a "per-item" fee.

$$2.9\% + \$0.30$$

Volume fee

Calculated as a percentage of the payment amount
 Volume fees scale with the payment size
 Merchants with moderate to large average ticket size will be more concerned with volume fees

Per-item fee

Flat fee applied regardless of payment size
 Per-item fees ensure that costs are covered even on very small transactions
 Merchants with a very small average ticket will be more concerned with per-item fees

For larger payments, the volume fee will have more impact. For smaller payments, the per-item fee will have more impact. This table shows the impact of a \$0.30 per-item fee at various payment sizes:

Payment size	Volume fee at 2.9%	+ Per-item fee at \$0.30	= Total fee	Total fee %	Per-item fee %
\$10	\$0.29	\$0.30	\$0.59	5.9%	3.0%
\$100	\$2.90	\$0.30	\$3.20	3.2%	0.3%
\$1,000	\$29.00	\$0.30	\$29.30	2.93%	0.03%
\$10,000	\$290.00	\$0.30	\$290.30	2.90%	0.003%

Average ticket: This is another term for the average size of a payment. This can be determined for a merchant or an entire platform by dividing the total processing volume by the number of transactions to get the average.

For example, if a merchant processes 500 transactions per month and the total volume of those transactions is \$100,000, the average ticket for that merchant is \$200.

Pro tip: If you know the average ticket size, you can use this formula to estimate the total fee as a percentage:

Total fee % = Volume fee + (Per-item fee / average ticket)

e.g. For a \$300 average ticket, using the same fees as above, total fee % = 2.9% + (\$0.30 / \$300) = 2.0%

Basis point: 1/100th of a percentage point, or 0.01%. 100 basis points is equal to 1%. 50 basis points is equal to 0.50%. Basis points is abbreviated as “bps”. In conversation, it sounds like “bips”. Payment provider fees and SaaS company payment processing profit margin are often measured in basis points.

Interchange: Fees set by the card networks and paid to issuing banks. Turn to [page 30](#) for a more detailed explanation of interchange.

Dues, fees, and assessments (DFA): Fees paid to the card networks.

Passthrough rate: The sum of Interchange and DFA. These fees are a mix of volume fees and per-item fees. Total passthrough fees are divided by the payment volume to get the passthrough rate as a percentage. If your average ticket size is less than \$50-\$100, you’ll want to think about passthrough costs in terms of both a percentage and per-item fee, because the per-item fee is most impactful on smaller ticket sizes.

Card processing pricing structures

Interchange plus

Also known as IC+, Cost Plus, Passthrough-Plus

Offered as a buy-rate on top of processing fees, e.g. IC+ 40 bps + \$0.30

Unpredictable for merchants, predictable margins for the platform

Interchange optimization savings benefit the merchant

Requires less analysis to determine the buy rate, but more analysis for regular billing

More complex reporting and reconciliation

Requires more detailed reporting from payments provider

Exposes platform profit and gives merchants incentive and information to further negotiate price

Hard to net fees from merchants, thereby increasing collection risk, expense, etc.

Flat

Also known as Blended

Card processing fees and markup are all rolled into a single price which usually includes a percentage and per item fee, e.g. 2.9% + \$0.30

It's also possible to have just a percentage, e.g. 3.2%

Clear and predictable for merchants, less predictable for the platform; month-to-month variability can be mitigated with ongoing monitoring and adjustment

Interchange optimization savings benefit the platform

Requires more analysis to determine the price point, but less analysis for regular billing

Easy reporting and reconciliation

Easy to net fees on a daily basis from the merchants, which can reduce collection risk, expense, etc.

Emerging pricing strategy

Bundled pricing

Bundled pricing is similar to flat pricing, but the SaaS fee is also included. Instead of charging \$99 per user per month plus 3% on payments, the platform would charge 5% on payments and the core SaaS product would be included.

This strategy has all the benefits of flat pricing:

- Simple for merchants; easy reporting and reconciliation
- Interchange optimization savings benefit the platform
- Fees can be netted daily from merchant deposits, which reduces collection risk

Bundled pricing can also have advantages over flat pricing:

- Higher gross margin on payments cushions against month-to-month variation in interchange passthrough
- Embedded payments is viewed as part of the platform
- Easier for sales teams to position the holistic value of the platform
- Less pricing pressure from merchants because its harder to find a direct comparison with other providers

What pricing model should vertical SaaS platforms use?

Interchange passthrough costs will vary between transactions – passing the exact processing fees on to customers will add complexity, which isn't in the best interest of your customers. A clear volume fee and per-item fee will be consistent across all transactions and make it easier for your customers to understand their payment activity and processing fees.

IC+ pricing is best for very large merchants (like regional and national retailers). These merchants usually contract directly with merchant acquirers and have entire departments dedicated to optimizing their payment processing fees.

For most SaaS platforms, flat or bundled pricing will provide the best merchant experience.

Pricing structure FAQs

1. Should we pass through the exact processing fees to customers?

When SaaS companies ask this question, it may indicate that they aren't totally bought in on the value of embedded payments.

When implemented well, embedded payments add real value for merchants. In-context payment reports, embedded deposit reporting with transaction and fee level detail, one-stop support, and easy reconciliation all **help merchants save time** so they can focus on other areas of their business. Features like Apple Pay and card account updater services add further value by **reducing friction in the payment flow**.

If there are concerns about whether the embedded payments product is “good enough” to warrant premium pricing, there are two places to look.

Does the embedded payments provider enable a reliable, fully embedded payments experience with accurate data, in-context reporting, and easy reconciliation?



If not, the solution isn't to sell payments at cost. The solution is to partner with a payments provider that helps you deliver the payments experience your merchants deserve.

Is the SaaS product essential to merchants in terms of growing revenue and saving time?



If the core SaaS product lacks critical capabilities, has usability issues, or otherwise isn't saving time and helping merchants win, adding embedded payments won't compensate for other product shortcomings. And pricing payments at cost won't change that.

Build a comprehensive product that your users rely on every day. Then add embedded payments. When you do that, there's no reason to price payments at cost.

2. Should we offer different pricing tiers?

In many cases, it's not necessary. Here are two situations where you may want to offer different pricing tiers:

If you have **distinct segments** – e.g. single-location businesses processing \$200k-\$500k/yr vs multi-location businesses processing > \$1M/yr, you may want to offer slightly **lower processing fees to the businesses with higher processing volume**

If you have **multiple tiers** in your SaaS product, e.g. single user, team, and enterprise, you may want to **reward higher-tier customers with slightly lower payment processing rates**

3. Should we pass through certain fees (e.g., return fees, chargeback fees) directly to merchants or build them into our overall pricing?

The goal should be to **simplify pricing as much as possible, without compromising revenue**. Historically, payment providers made money by nickel-and-diming merchants with auth fees, PCI compliance fees, statement fees, etc. This creates an **opportunity for modern software companies to differentiate their payment offering by using a simple, predictable pricing model**.

The degree to which a platform can simplify without compromising revenue will vary depending on the vertical. For example, a platform in an extremely low-risk vertical might want to build chargeback fees into their overall pricing. This allows the platform to present the simplest possible pricing. The small amount of revenue that would be generated from chargeback fees isn't worth the friction created by presenting and explaining the fees.

In industries where merchants can reduce their chargeback rates by offering clear refund policies, real-time order status, and excellent customer service, it makes more sense to pass these fees on to the merchant as an incentive to keep chargeback rates low.



3.

**Determine your
advertised price**

Pricing

Myth: Migrations require price-matching

Fact: Migrations from one payments provider to another require value. Embedded payment products already include enhancements that are intrinsically valuable to business customers. **In-context payment reports, embedded deposit reporting** with transaction and fee level detail, **one-stop support, and easy reconciliation** are all **value-adds that make the merchant's life easier**. Most business leaders will be **willing to pay a little more for a solution that saves time and reduces errors**.

Myth: Pricing will have a big impact on payments adoption and usage

Fact: Merchants claim that lower pricing is important, but the vast majority of the cost of accepting payments isn't your margin, it's the card network and issuing bank fees (interchange passthrough).

For example, if you're billing customers 3% and your costs are 2.60%, you can cut your margin in half and only be able to effect a 0.20% (or 20 basis point) or 7% cost savings for the merchant. 20 bps across your total platform volume is meaningful, but for the average merchant processing \$250,000 per year, that only equals \$500 of savings.

Not nearly meaningful enough to motivate them to take action.

Furthermore, the 50% reduction in your margin will limit your ability to add features and continue to improve your product. Those tradeoffs will negatively impact adoption and usage. **Solving the merchant's problems has a big impact on payments adoption and usage. Pricing generally does not.**



I worked with a platform that offered enterprise merchants a total card processing fee of 1% for 6 months. At \$20M+ per year with 1%+ of savings, this equaled 6-figures of savings.

You would expect this to have a major impact on adoption, but what happened was surprising. The response was virtually zero. The short-term savings wasn't enough to warrant the pain in moving.

How did that platform ultimately get merchants to migrate?

Deeply integrating payments into core platform features, like revenue forecasting and invoice automation, and sunsetting legacy processor support. Worked like magic.

And this isn't uncommon. The key to adoption and migration really isn't about price, it's about value.

- Becky Kopplin, VP Payments

Factors impacting price ceiling

Core SaaS product

- ↑ End-to-end solutions (including CRM, quoting, project management, communications, invoicing, payments, etc.) provide more value overall and command higher prices for payment processing
- ↑ Vertical specific solutions tend to be especially valuable – if your platform is the “business management platform” or “operating system” for a specific vertical, you’re probably in this category
- ↑ Sticky products that are essential to the merchant’s day-to-day have a higher price ceiling
- ↓ Products that only offer invoicing and payments tend to be viewed as commodities, and may need to be priced lower

Competition

- ↑ Underserved verticals and hyper-specialized solutions have less competition
- ↓ Crowded markets with low-priced options may need lower prices or better product differentiation

Merchant experience

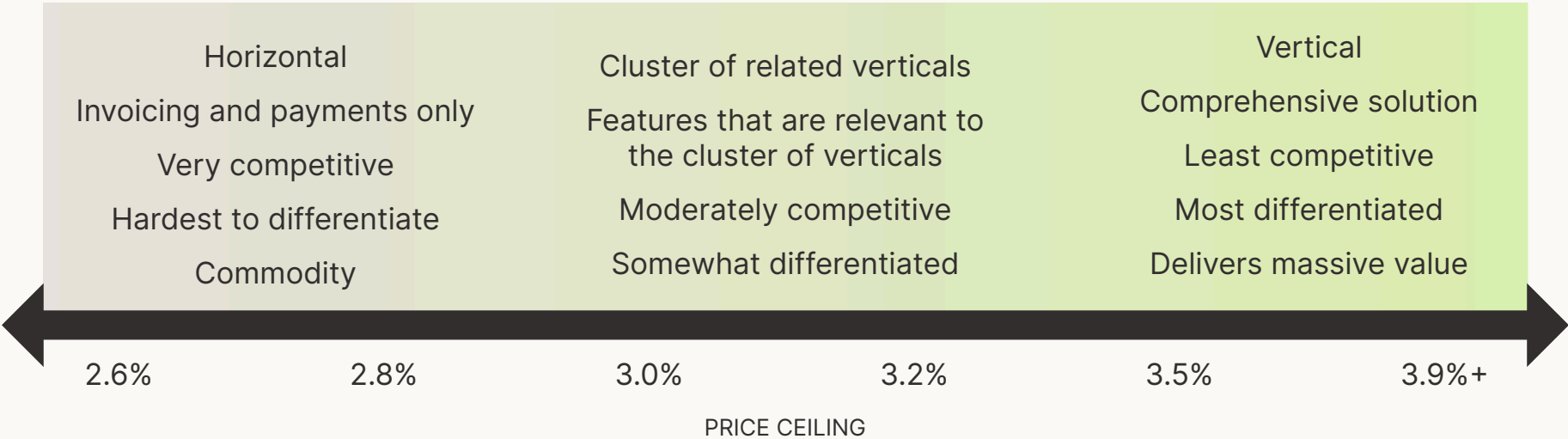
- ↑ Thoughtful integration of payments into essential workflows make the payments product more valuable
- ↑ In-context reporting where merchants can see payment data along with relevant business information makes the product more valuable
- ↑ Easy reconciliation saves time (and headache) and makes the product more valuable
- ↓ Unreliable payment processing, inaccurate data, or a disjointed experience significantly reduce the value of the payment and can even be a liability

Merchant price sensitivity

- ↑ High-margin verticals where time has high value are likely to pay more for a solution that saves time
- ↓ Low-margin verticals will have more price-sensitive merchants
- ↓ Very large merchants have more leverage to negotiate price

Specificity and comprehensiveness

Comprehensive, end-to-end solutions for a specific vertical will generally have the highest price ceiling (right side of the chart), while horizontal products with limited features will have a lower price ceiling (left side)



What if the core SaaS product is somewhere between vertical and horizontal?

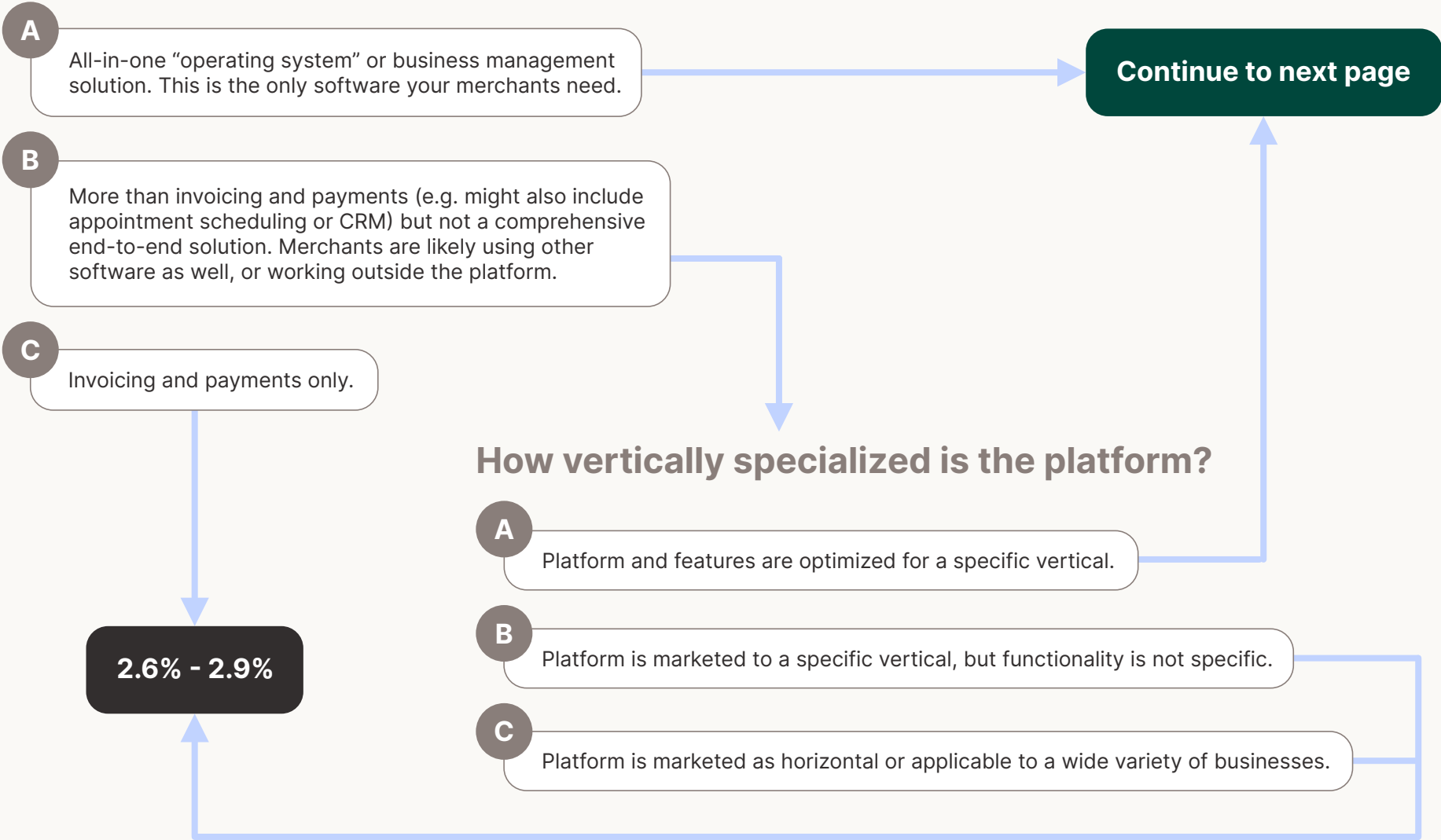
If you have a feature-rich horizontal platform, or a vertical-specific invoicing and payments platform, the decision tree on the next page will help you find the right price range.

If you'll be using bundled pricing, remember that these recommendations are just for payments – incorporating SaaS fees will increase the price! Once you've determined the payments price range, turn to [page 25](#) and follow the steps calculate your bundled price.

Pricing decision tree

START HERE

Which statement best describes the platform?



Pricing for comprehensive solutions

Which statement best describes the target vertical?

Many SaaS competitors,
harder to differentiate,
commodity product



2.7% - 3.0%

Moderately competitive,
somewhat differentiated,
some stickiness



2.9% - 3.5%

Fewer competitors,
vertical-specific solution,
very sticky product



3.2% - 3.9%+

Comprehensiveness > Competition

Even in crowded verticals, more specific and comprehensive solutions can command higher prices. Software that enables merchants to grow revenue while saving time has tangible value. It makes sense for merchants to invest in software that helps them do more.

REAL-WORLD EXAMPLE

One well-known platform dominates the fitness studio vertical with an advertised payment processing fee of 3.5% + \$0.15.

A less well-known but rapidly growing competitor has a payment processing fee of 3.9% + \$0.30.

Fitness studios are not particularly high-margin businesses. A yoga studio owner once told me she taught 25 classes per week because if she paid another teacher to lead those classes, she wouldn't have enough money to pay herself as the owner.

Yet even in a relatively low-margin business, studio owners happily pay 3.5% - 3.9% for payments when the software also handles scheduling, class sign-up, subscription management, and administrative work that would otherwise take them out of the studio.

How to command premium prices

Once you establish that the core SaaS product is both specific and comprehensive, what's the difference between a platform that charges 3.2% and a platform that charges 3.9% or more?

Merchant experience.

The platforms able to command the highest prices for payments are vertical-specific, provide a comprehensive all-in-one solution, and have a winning merchant experience.

A winning merchant experience is **fully embedded** and **high-quality**.

Fully embedded

Payments functionality (including refunds, chargeback handling, etc.) is part of the SaaS application without redirects or third party portals

Platform controls the payment flow

Payment amount and payment metadata are determined by platform, leveraging existing data and workflows

Payments data is shown where it is most relevant to merchants, and with needed context

Payment status can trigger other events on the platform

SaaS company is the single point of contact for support

High-quality

Reliable (high uptime)

Real-time payment status

Accurate data

Predictable deposit timing

Consolidated deposit for all payment methods

Clear deposit report

Transparent fees

Bundled pricing

Now you have an idea of your price ceiling – probably a small range between 2.6% and 3.9%.

If you're exploring bundled pricing, now is the time to add in your SaaS fees.

To keep this simple, let's return to the example (from page 6) of a SaaS platform for law firms.

For this example:

- Law firms have an average of 10 employees each
- Core SaaS product is \$49 per user per month
- Law firms average \$1M annual revenue

Continuing where we left off, let's assume that we determined the payments price range to be 3.2% - 3.5%.

The average law firm is paying \$5,880/yr in SaaS fees and earning \$1M in revenue. If we assume that all revenue will be processed by the new embedded payments feature, we can determine the bundled price by calculating the SaaS fees as a percentage of payment processing volume, and adding the result to the payments price.

$\text{SaaS fees} / \text{processing volume} = \$5,880 / \$1,000,000 = 59 \text{ bps or } 0.59\%$

$\text{Bundled price} = 3.79\% - 4.09\%$

To keep things simple, the bundled price might be set at 3.9% or 4.0%

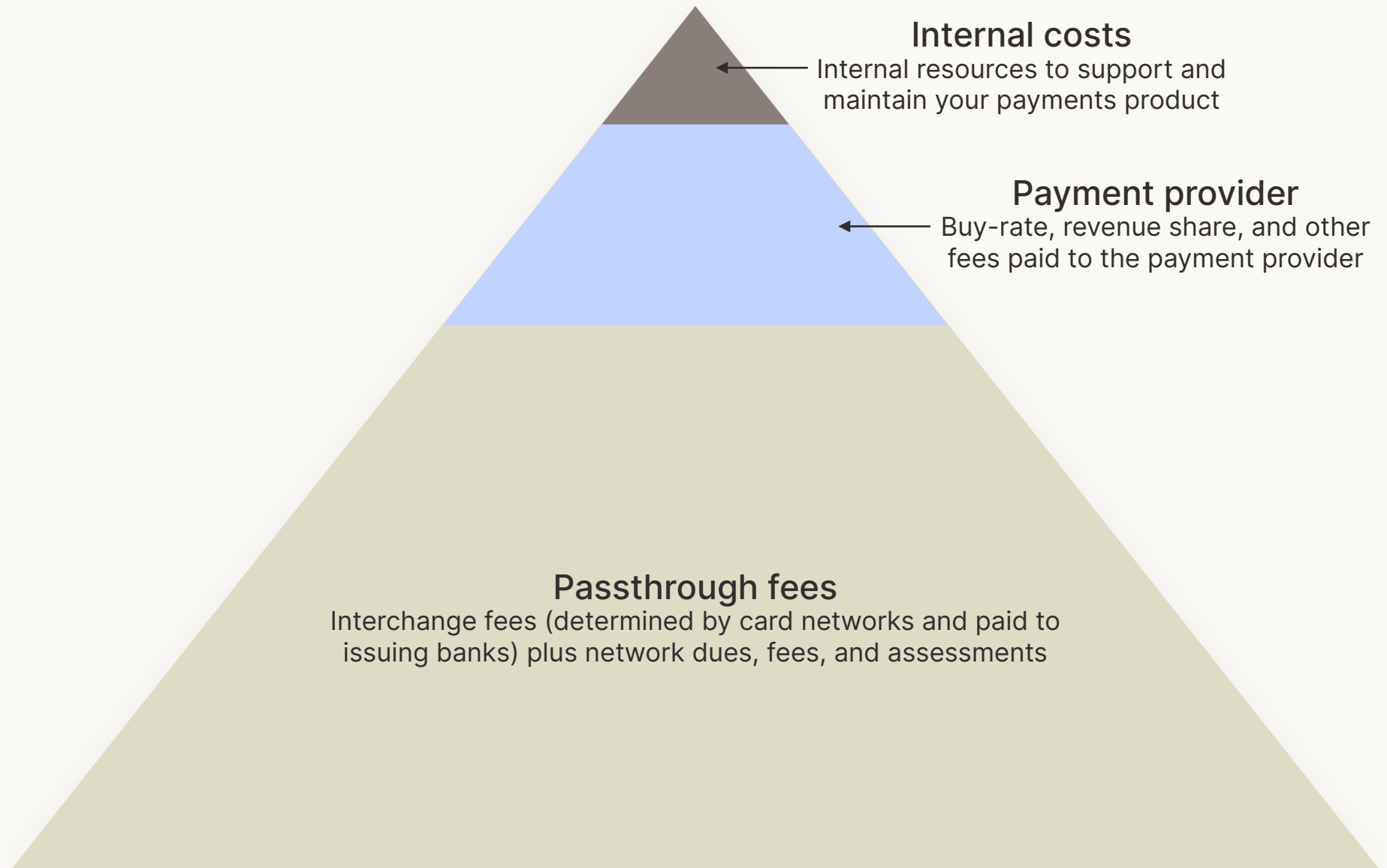
A woman in a white lab coat is shown in profile, smiling and holding a pair of glasses. She is in an optician's office, with a rack of various styles of glasses visible in the background. The scene is brightly lit and has a clean, professional appearance.

4.

**Calculate your
minimum price**

Payment processing costs

The first step in building your bottom-up estimate is understanding your payment processing costs.



Revenue recognition

There are two common revenue recognition models in embedded payments. Your choice won't impact the pricing, but understanding the two models will allow us to talk about the financials in more concrete terms.

Net

Payment provider collects processing fees from merchants, nets out interchange passthrough and provider fees, then distributes residual to the SaaS platform.

Generates much less top-line revenue for the platform because only residuals are recognized as revenue.

Margin is extremely high because direct costs are so low.

Gross

SaaS platform collects processing fees from merchants, then remits interchange passthrough and provider fees to payment provider.

Allows the platform to recognize much more revenue because platform can recognize the entire merchant processing fee.

Margin is significantly lower because interchange passthrough and payment provider fees are recognized as costs.

Here's an example. To keep the math simple, we'll assume \$100M processing volume at 3% merchant processing fee, 2% passthrough costs, 30 basis points (0.30%) in payment processing fees - leaving 70 basis points (0.70%) as the net.

Net revenue recognition

Revenue = \$100M x 70 basis points = \$700k

Cost = negligible

Profit = \$700k

Margin = nearly 100%

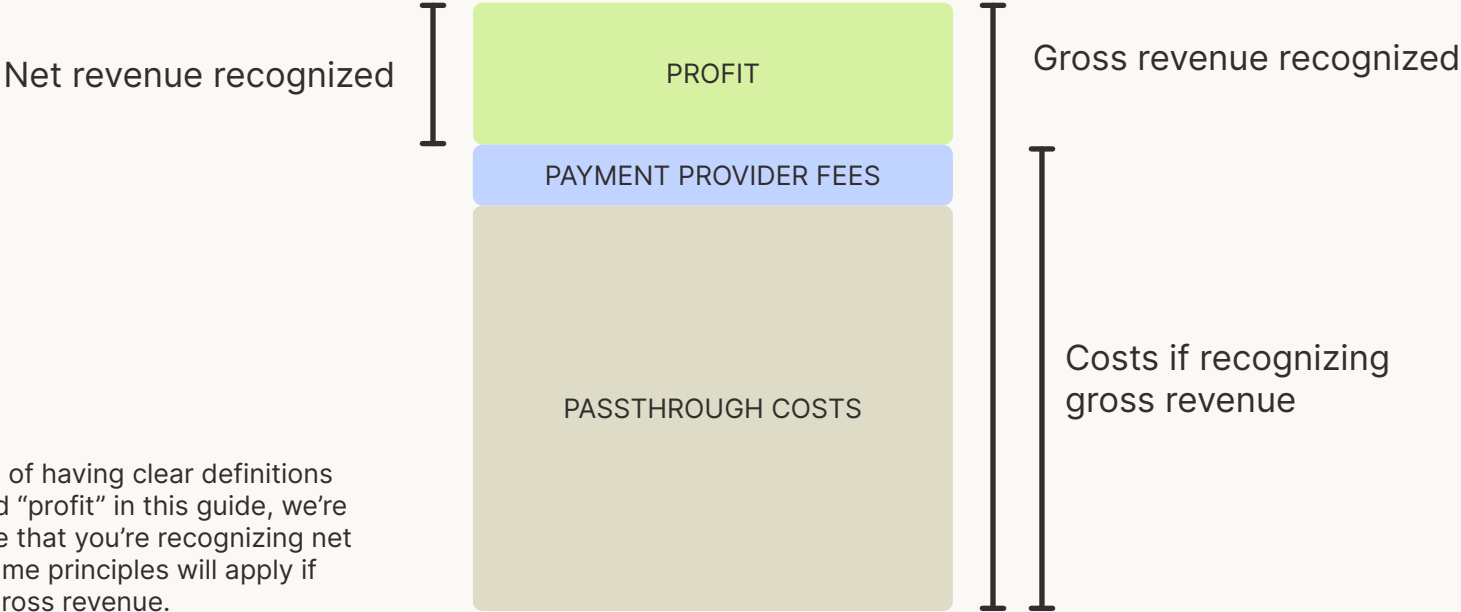
Gross revenue recognition

Revenue = \$100M x 3% = \$3M

Cost = \$100M x 2.3% = \$2.3M

Profit = \$700k

Margin = 23%



For the purpose of having clear definitions of “revenue” and “profit” in this guide, we’re going to assume that you’re recognizing net revenue. The same principles will apply if you recognize gross revenue.

Interchange and DFA

Interchange is the largest contributor to credit card processing fees. Interchange rates are determined by the card networks, and the fees are paid to the issuing bank for every transaction. Interchange rates vary based on several factors:

Card type

- Debit, credit, business, rewards, etc
- Visa, Mastercard, Discover, American Express

Merchant

- MCC
- Program enrollment, e.g. Visa SMB

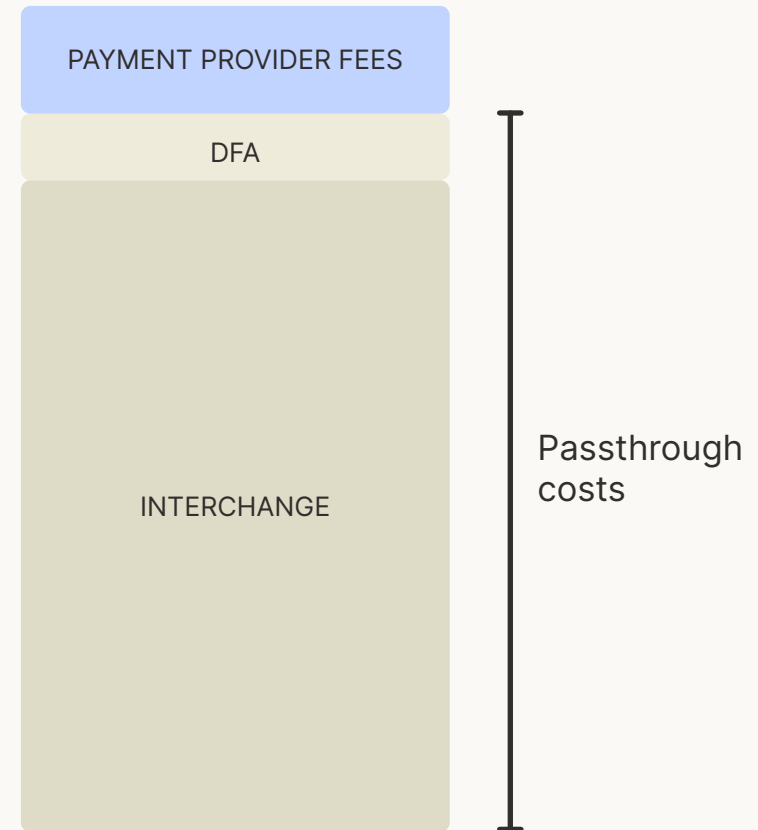
Transaction size

Processing method

- Card present, card not present

Data

- Address, level 2 / level 3, order #, etc.



At the low end, debit card transactions can carry an interchange rate as low as 0.05% + \$0.22. At the high end, a rewards card can be close to 3%. If the data provided with the transaction is incomplete, the transaction may be downgraded and the associated penalty can push the interchange rate to over 3%.

In addition to interchange fees paid to the issuing bank, the card networks also charge dues, fees, and assessments (DFA). These tend to be smaller fees, averaging approximately 24 bps for US merchants accepting US cards. However, for international cards, DFA can be upwards of 150 bps (1.5%). The combination of interchange and DFA is called “interchange passthrough”.

3 ways to find your passthrough costs

In the wild, no platform processes just one type of card transaction, so average interchange rate will depend on the overall mix of the factors listed on the previous page. Here are some methods you can use to estimate interchange for your bottom-up pricing model.

1. Check your residual report or interchange detail report

If you already have integrated or embedded payments, you may already know the answer! Some payment providers include this in monthly residual reports or share it upon request, others bury it and force you to build a spreadsheet to reverse engineer the passthrough rate.

PLATFORM RESIDUALS	
	Total
Merchant Revenue Collected	\$26,422.97
Pass-through Fees	-\$17,083.38
Rainforest Fees	-\$3,703.44
Platform Residuals Due to Rainforest Tours	\$5,636.15

$$\begin{aligned}
 \text{Passthrough rate} &= \text{Passthrough Fees} \div \text{Card Volume} \\
 &= \$17,083.38 \div \$855,308.28 \\
 &= 1.997\%
 \end{aligned}$$

Rainforest MID	Merchant	Card Volume	Card Volume Refunded	Net Card Volume
mid_XXXXXXXXXXXXXXXXXXXX1	Selva Skippers	\$5,830.82	\$0.00	\$5,830.82
mid_XXXXXXXXXXXXXXXXXXXX2	Anaconda Boat Guides	\$2,591.72	\$0.00	\$2,591.72
mid_XXXXXXXXXXXXXXXXXXXX3	Jaguar Adventures	\$53,801.47	\$0.00	\$53,801.47
mid_XXXXXXXXXXXXXXXXXXXX4	Starfruit Outfitters	\$105,700.77	-\$124.64	\$105,576.13
mid_XXXXXXXXXXXXXXXXXXXX5	Capybara Campers	\$332,162.06	-\$246.45	\$331,915.61
mid_XXXXXXXXXXXXXXXXXXXX6	Olympic Forest Tours	\$146,218.59	\$0.00	\$146,218.59
mid_XXXXXXXXXXXXXXXXXXXX7	Amazon Conservation Corp	\$195,406.34	-\$1,971.70	\$193,434.64
mid_XXXXXXXXXXXXXXXXXXXX8	Borneo Backcountry Bungalows	\$15,939.30	\$0.00	\$15,939.30
Total		\$857,651.07	-\$2,342.79	\$855,308.28

2. Ask your merchants for their processing statements

If some of your merchant have cost-plus pricing with their current payment provider, you can ask them to share their processing statements with transaction-level interchange detail. If you use this approach, make sure the merchants are a representative sample, or validate your findings using another method.

3. Start with an educated guess

B2C in-store low-ticket
1.6% - 2.0%

B2C online low-ticket
1.9% - 2.3%

Non-profit
1.5% - 1.9%

B2C in-store high-ticket
1.8% - 2.3%

B2C online high-ticket
1.6% - 2.0%

B2B
2.4% - 3.0%

These estimates take general trends into account. For example, higher-ticket B2C purchases often have higher interchange and customers are more likely to use rewards cards for these purchases. Low-ticket in-store purchases benefit from card-present rates and will likely see more utilization of debit cards with lower interchange rates.

Regardless of which method you use, Rainforest's expert team can help you find the right passthrough rate for your bottom-up pricing model!

Should we charge higher fees for American Express?

If you don't have a lot of American Express volume or your overall price is plenty to cover the American Express rates while still delivering the desired margin, this might add unnecessary complexity. However, if you have a lot of American Express volume – which is often the case in B2B and high-ticket B2C – adding a surcharge for American Express can allow you to lower overall prices while protecting your margin. This is especially relevant if the average ticket size is large.

Payment provider fees

If you have a contract or pricing proposal, you can calculate your “all in” payment provider fees based on your volume fee, per-item fee, revenue share (if applicable), and any ancillary fees your payment provider charges. Low-cost payment providers are notorious for hidden fees, so make sure to take these into account!

If you don’t have a pricing proposal, here are some estimates for your bottom-up model.

Total annual platform card processing volume ↓	Average ticket size →		
	\$100	\$500	\$2500
\$100M/yr	20 bps - 60 bps	18 bps - 45 bps	15 bps - 40 bps
\$200M/yr	15 bps - 50 bps	12 bps - 35 bps	10 bps - 30 bps
\$400M/yr	12 bps - 40 bps	10 bps - 30 bps	10 bps - 25 bps
\$800M/yr	10 bps - 30 bps	10 bps - 25 bps	10 bps - 20 bps

Effective rates tend to be higher if the average transaction size is smaller, because the flat per-item fee will have a larger impact on smaller transaction sizes. For example, a \$0.30 per-item fee is 30 basis points on a \$100 transaction, but it’s only 3 basis points on a \$1000 transaction.

Lastly, low cost isn’t always better! No one becomes the low-cost leader without compromising on quality or support. Read more about the true cost of low-cost payment providers [here](#).

Internal costs

After the initial implementation, ongoing support and maintenance costs can be very low.

The choice of payment provider will impact internal support costs. For example, if the payment data isn't accurate, your support team will field a lot of requests around payment status, deposits, and reconciliation. This will drive higher support costs.

With a high-quality embedded payments product, support costs will be so low that they're difficult to measure. There may be a small incremental increase in support requests compared to not having a payments product at all, but for many software companies the increase barely moves the needle on overall support costs.

There are also efficiencies when supporting and maintaining payments at scale. The incremental cost increase from 0 to \$100M/yr processing volume might be noticeable. The incremental cost increase from \$800M/yr to \$900M/yr will be less.

Lastly, if you're moving from integrated payments (a referral model) to embedded payments, conventional wisdom suggests that your support costs will increase. In reality, the opposite is often true. Referral models claim to be very "hands off" for the platform, but they're also confusing for merchants – which create a lot of support requests for the platform. With embedded payments, the platform is taking on responsibility for support, but the support requirements tend to be so much less that the overall support effort can be less than integrated payments.

Because the internal costs tend to be very small compared to interchange passthrough and payment provider fees, it's common for software companies and investment firms to exclude them when calculating payments margin. Then make sure that the margin is large enough to cover any expected costs.

Bottom-up pricing examples

Examples are provided to illustrate the process – even if your platform is similar to one of the examples, it's important to recalculate with your own estimated interchange, provider fees, and desired gross margin!

Healthcare

\$200M/yr, \$250 average transaction, mix of online and in-office payments

Estimated interchange passthrough: 2.1%

Estimated payment provider fees: 20 bps

Desired gross margin: 50 bps

Minimum price = 2.1% + 0.2% + 0.5% = 2.8%

B2B Services

\$500M/yr, \$3000 average transaction, online only

Estimated interchange passthrough: 2.6%

Estimated payment provider fees: 15 bps

Desired gross margin = 25 bps

Minimum price = 2.6% + 0.15% + 0.25% = 3.0%

Non-profit

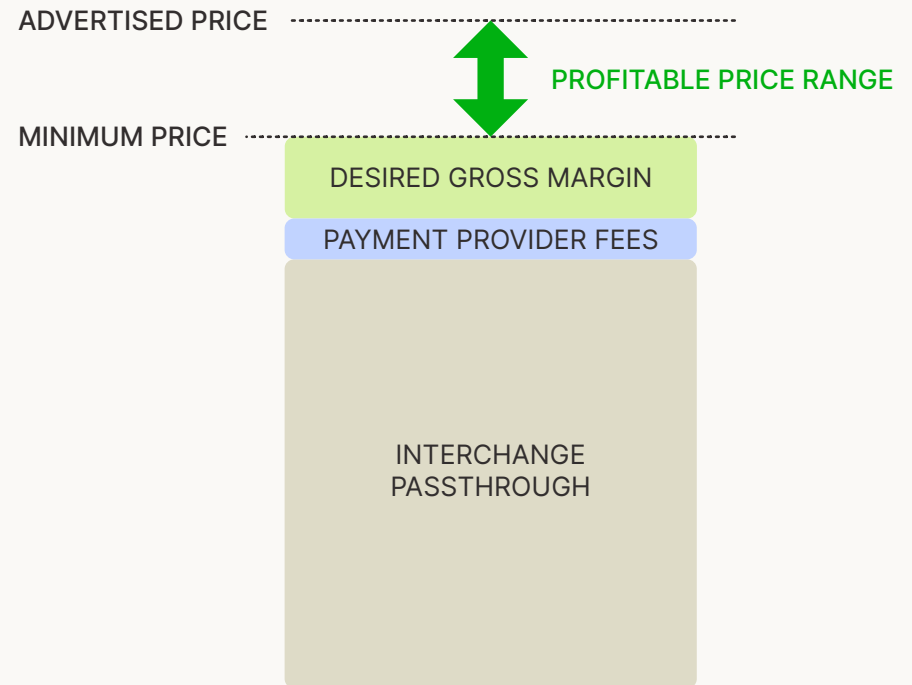
\$100M/yr, \$50 average transaction, online only

Estimated interchange passthrough: 1.5%

Estimated payment provider fees: 25 bps

Desired gross margin: 50 bps

Minimum price = 1.5% + 0.25% + 0.5% = 2.25%



What if my bottom-up estimate is higher than my top-down estimate?

This can be caused by high interchange estimates, high payment provider fee estimates, gross margin expectations, or a missed opportunity to increase the value of the core SaaS product. It's time to get outside eyes on your estimates to see where we can make adjustments and get you to more profit. Rainforest offers complimentary payment strategy consultations to SaaS companies with at least \$100M annual card processing volume. If this is you, schedule your payment strategy consultation [here](#).

5.

ACH pricing



ACH processing pricing structures

Credit card interchange fees are a percentage of the payment, which forces card processing fees into a percentage-based model. In contrast, most banks charge flat ACH fees, which enables payment providers to charge flat ACH fees, and gives software platforms more options for how they price and monetize ACH payments.

Flat

Flat fee per ACH payment, e.g. \$1

Revenue tracks to number of payments

Most revenue for small average transaction sizes

May be required in industries where merchants are already accustomed to flat-fee ACH processing

Percentage

Fixed percentage of payment, e.g. 3% + \$0.30 or 1% + \$0.30

Revenue tracks to overall payment volume

Most revenue overall but in some verticals, merchants may push back on uncapped ACH volume fees

Works well in industries where getting paid is viewed as more important than optimizing cost

Percentage with cap

Percentage, up to a maximum fee, e.g. 1% + \$0.30, capped at \$50

Revenue tracks to overall payment volume until cap is reached

Works well in industries where merchants are particularly sensitive to processing fees on larger ticket sizes

Monetizing ACH

Merchant willingness to pay percentage-based ACH fees will vary widely between industries. Most will fall into one of three scenarios:

1. Finance (and finance-adjacent), utilities, and some high-ticket B2B

In industries where ACH is dominant, merchants are generally accustomed to paying flat ACH fees. These merchants are less willing to pay percentage-based ACH fees. In these industries, embedded ACH may not be a significant revenue driver for the SaaS platform, but may help drive overall adoption. Unified reporting, deposits, and reconciliation can be a significant value-add for these types of businesses.

2. B2B and high-ticket B2C

In industries where merchants receive most of their payments via card, merchants are already accustomed to paying volume fees. However, for higher-ticket purchases, merchants will be vigilant about volume fees. Platforms who serve these industries often see success with volume fees in the 0.5% to 1.5% range, with a cap around \$5 or \$10 per payment. You may also want to include a small per-item fee (e.g. \$0.20 or \$0.30) to make sure your costs are covered in the case of small transactions that don't generate a significant volume fee.

3. Low-ticket B2C

Low-ticket B2C merchants who receive nearly all of their payments via card have already accounted for card processing fees in their own pricing structure. For these industries, it's common to see an uncapped ACH volume fee of 0.5% to 1.5% along with a small per-item fee of \$0.20 to \$0.50. In some industries, ACH is such a small portion of overall payment volume that the card processing fee can be extended to all payment methods (e.g. 3.0% + \$0.30 for all payments, regardless of payment method).

6.

Go-to-market considerations



Launching (or re-launching) embedded payments

Start high and lower if needed

You can always decrease the price. It's harder to increase it. Start higher and go from there. However, make sure your merchant contract gives you the flexibility to increase pricing, upon notice.

Use “test, measure, learn” processes

Promote an “early adopter” rate and see what questions you get. Use this information to adjust positioning, messaging, and, if needed, pricing. The “start higher” principle matters here.

Position payments as an obvious upgrade

If you're launching or re-launching payments, you're likely doing one of the following:

- Replacing a mediocre merchant experience with a winning merchant experience
- Replacing one or more partially integrated payment providers with a truly embedded solution
- Adding embedded payments where previously merchants needed to accept payments off-platform

In all these situations, you are investing in your payments product to deliver a superior merchant experience for your customers. You're providing in-context payment reports, easy reconciliation, and one-stop support – all to benefit the merchant. You are giving merchants a feature or improvement that they've been asking for, or at least secretly wanting.

This is your right-to-win. Of course merchants want to use the new embedded payments product! Infuse this energy into every piece of communication about the payments launch.

Behind the scenes

These details may not be front and center for your launch, but tackling them now prevents confusion later.

Merchant agreement terms

With fully embedded payments, you own the merchant relationship. Consider adding key contract terms to help manage the payment processing relationship.

Fee change

Ability for platform to change fees without notice, or with short notice by exception, if upstream vendors change costs

New services

Ability for platform to add services, where use of the new services constitutes acceptance of the sticker price

Updates to terms

Ability to update terms of service such that transaction processing serves as acceptance of the updated terms

Refunded payments

When a merchant refunds a credit card payment to an end customer, it might not make sense to apply the same pricing as when merchants get paid. Here are some recommendations:

Competitive market: charge only a per-item fee for the refund, not a volume fee.

Low-competition market or where the **platform is providing significant value add services around payments** (invoicing, collections, calling, etc): you can also charge a volume fee for the refund.

Enterprise merchants or **IC+ pricing:** you may need to return the passthrough fees associate with refunds.

Presenting the payments pricing

Keep the pricing as simple as possible

Complexity sounds expensive. For example, 2.65% + \$0.45 + 0.50% Amex surcharge + 0.40% for subscription billing, etc. sounds more expensive than 3.5%. Complex pricing also creates more complicated reporting, more difficult reconciliation, and more support requests related to billing. Simple pricing creates a better merchant experience.

List payments pricing with core software pricing

Payments should be listed with your software pricing. Don't make it a separate discussion or decision. Any time the payments product is separate from the rest of the SaaS product, the value of payments is being decoupled from the value of the core SaaS product. Embedded is the value-add, and that means that payments and the core SaaS product are most valuable together.

Limit pricing reviews to large merchants who are serious about the solution

When handling merchants requesting a pricing review, use a tiered approach to avoid doing a true cost comparison for smaller merchants. This type of analysis is labor-intensive and can be confusing. Allow your front line folks to offer a small discount without the statement review, and require volume thresholds before considering a statement review. Gate the review behind managers, and ensure that merchants are confident in the solution before committing to a pricing review.

Maximizing revenue

1. Pick a price and run with it

Don't overthink it. Pick a price and promote it to potential early adopters. Start high and make adjustments if needed. The feedback you receive will help fine-tune your positioning, messaging, and pricing.

2. Focus on adoption over margin

Volume beats margin all day, because volume is only limited by the total available market. Once you've found a reasonable price point, shift your focus to driving adoption. You can always come back and optimize costs and pricing later.

3. Optimize interchange

The best way to manage margin is interchange optimization because the majority of card processing cost is interchange passthrough. If you're paying 2.0% interchange passthrough and 20 basis points (all in) to your payment provider, a 5% decrease in interchange passthrough gets you the same margin improvement as a 50% decrease in payment provider fees. Read more about interchange optimization [here](#).

How can we shift volume from ACH to card?

In general, make ACH less appealing and less convenient. You can make ACH less appealing by offering longer deposit timeframes (e.g. T+4 for ACH vs T+1 for card) and applying an additional fee. You can make ACH less convenient by presenting the card payment option first and requiring a few extra clicks to get to ACH. If you have multiple tiers of your core SaaS product, you can also make ACH exclusive to only your highest-tier customers.

7.

Next steps



If you've been following along, you now have:

1. A range for your advertised price
2. An idea of where you'll be within that range, based on the comprehensiveness of your core SaaS product and the quality of the merchant experience you're providing
3. A bottom-up estimate of the minimum price you need to get your desired margin

Taken together, this tells you what price to advertise payments, as well as the range within which you can discount for high-volume or key customers.

Ready to drive **revenue, retention, and enterprise value** with embedded payments?

Apply for a complimentary payment strategy consultation with our in-house experts

[START NOW](#)