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INNOVATION ECONOMY

Sector Spotlight: Embedded Payments

2025

Executive Summary

"The payments industry is a dynamic landscape ripe with innovation potential. Embedded payments, in particular, can significantly impact software monetization, allowing many software companies to potentially enhance their revenue strategies by transitioning from traditional subscription models to more diversified revenue streams. Beyond diversifying revenue, embedding payments often enhances user experiences and satisfaction, helping to retain and attract users. Supporting founders in this dynamic ecosystem is important as they navigate the evolving convergence of software and financial services. Embedded payments offer potential opportunities for revenue diversification and value enhancement, marking an exciting evolution within the software and financial services industries."

- Frank Medrano

Author:

Frank Medrano
Head of Fintech and Payment Banking, Commercial Bank

Contributors:

Nick Candy
Head of Innovation Economy Insights

Vincent Harrison
Innovation Economy Insights Analyst

Agenda

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03 Industry trend: embedding payments

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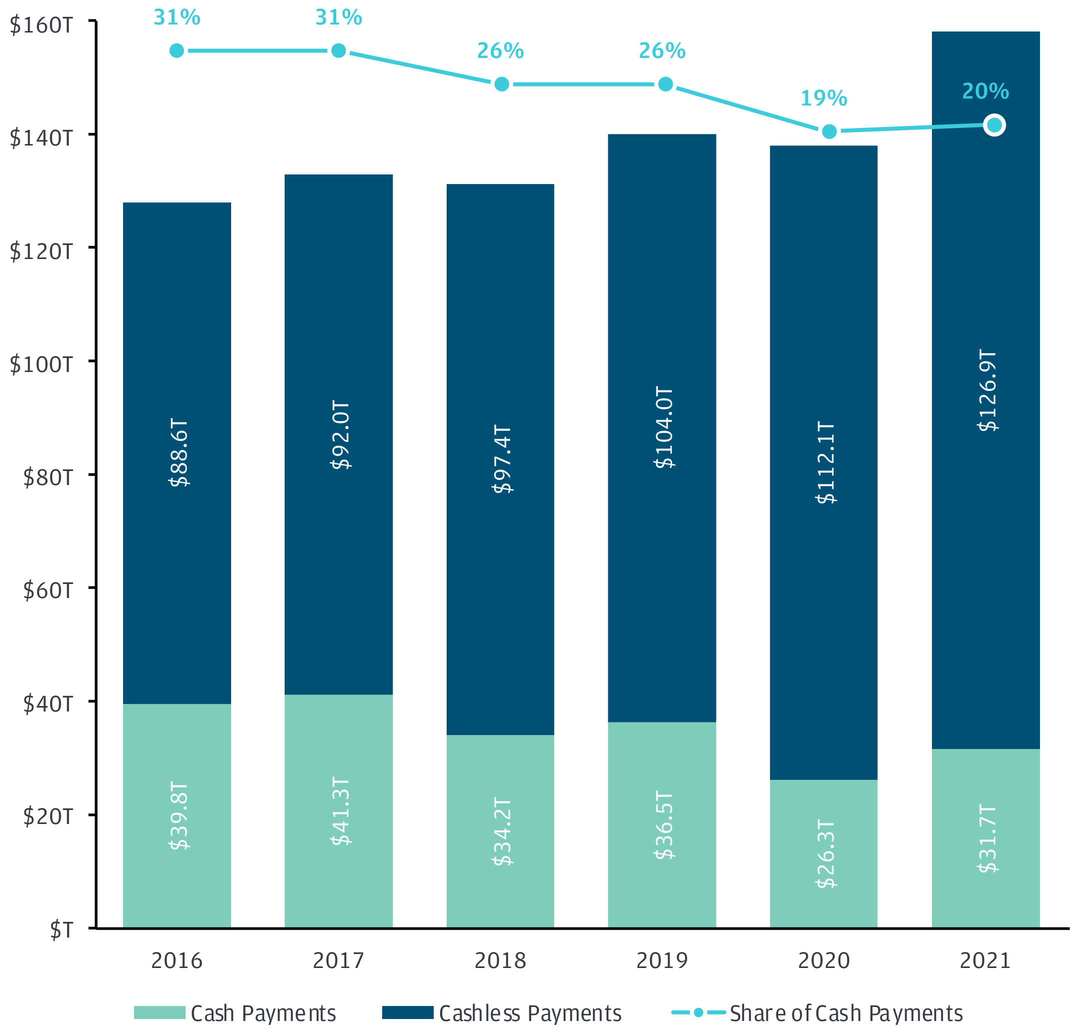
01

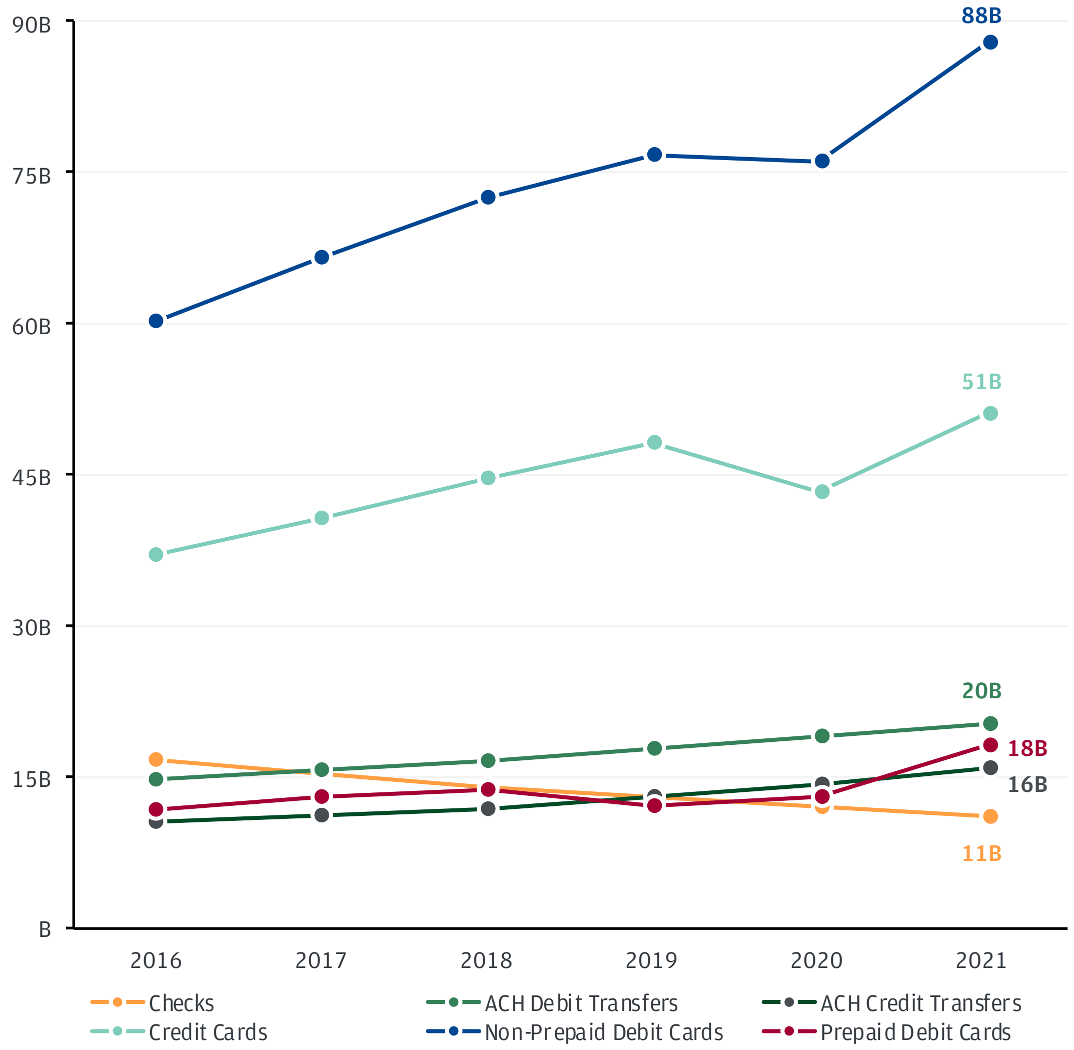
Macroeconomic variables

The growth in cashless payments is creating new opportunities for startups

GROWTH OF CASHLESS PAYMENTS HAS STARTED TO ACCELERATE
TOTAL VALUE OF U.S. CASH AND CASHLESS PAYMENTS



ALL CASHLESS PAYMENT TYPES, EXCEPT CHECKS, ARE GROWING IN POPULARITY
TOTAL VOLUME OF U.S. CASHLESS PAYMENTS BY TYPE



The increasing popularity of cashless payment methods is gradually transforming the payment landscape. Despite a decline in card use in 2020 due to the COVID-19 pandemic, this trend is contributing to greater convenience, security and efficiency for both consumers and businesses while also potentially reducing the need for physical currency.

As cashless transactions become more common, software startups may find opportunities to innovate and generate incremental revenue by adopting or developing payment models that integrate seamlessly, enhance user experiences and offer additional services.

Sources: The Bank for International Settlements (BIS), United States – value of cashless payments (total). The Federal Reserve Payments Study (FRPS).

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02

Fintech and payments activity

Payments definition and taxonomy

The payments ecosystem facilitates the transfer of money between parties, encompassing payment processors, gateways and financial technology firms, ensuring secure, efficient and convenient transactions globally.

Payments Subsectors[1]

Bill pay and settlements

Services enabling individuals and businesses to pay bills electronically, enhancing convenience and financial management

Human resources and payroll

Software solutions that streamline payroll processing and human resources management, integrating payment functions for employee compensation

Restaurant technology

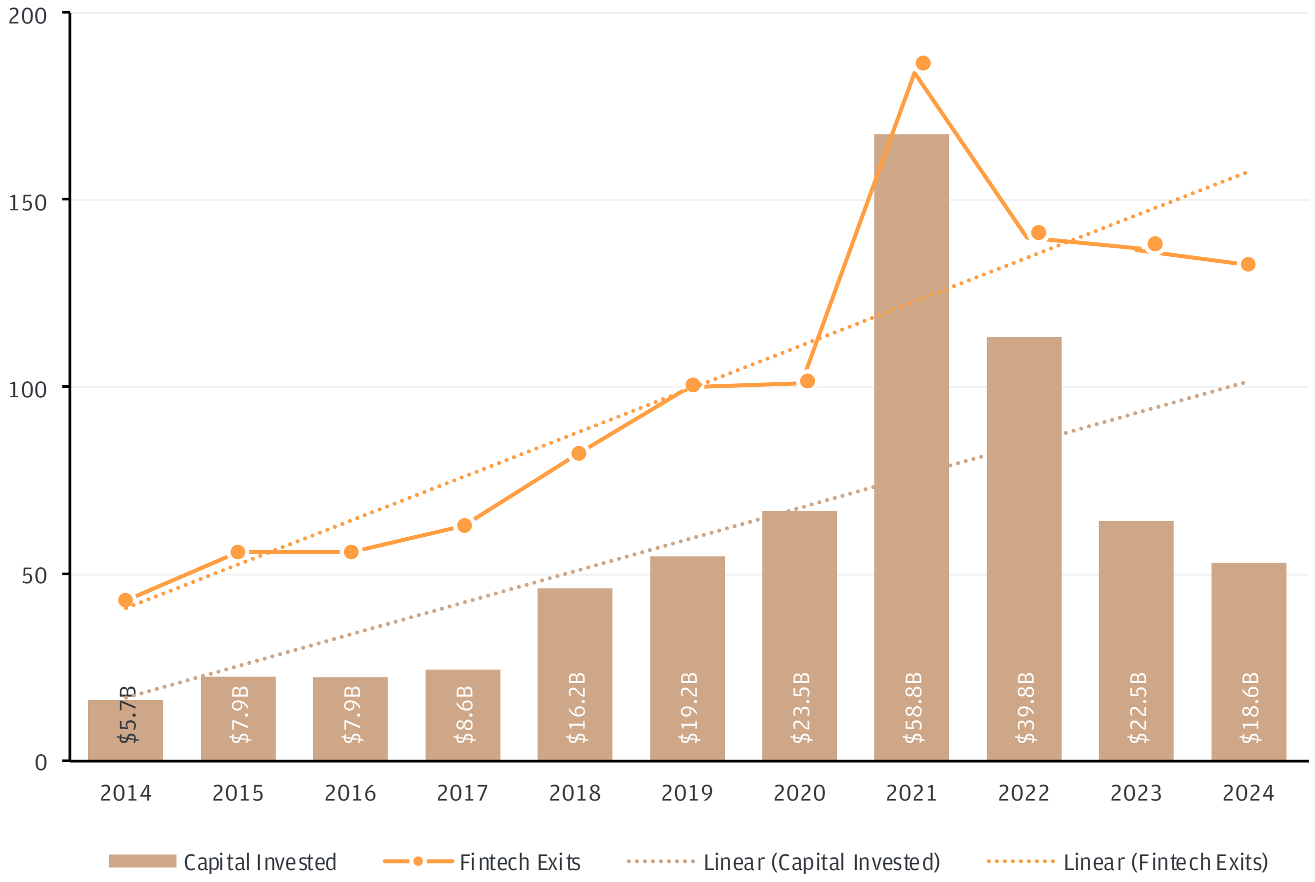
Technologies that streamline payment processes in restaurants, including point of sale (POS) systems, mobile payments and order management

Note: (1) Other subsectors within payments are not included here, making this a non-exhaustive list. Examples are for illustrative purposes only.

Fintech's long-term trend is upward, despite a broader slowdown

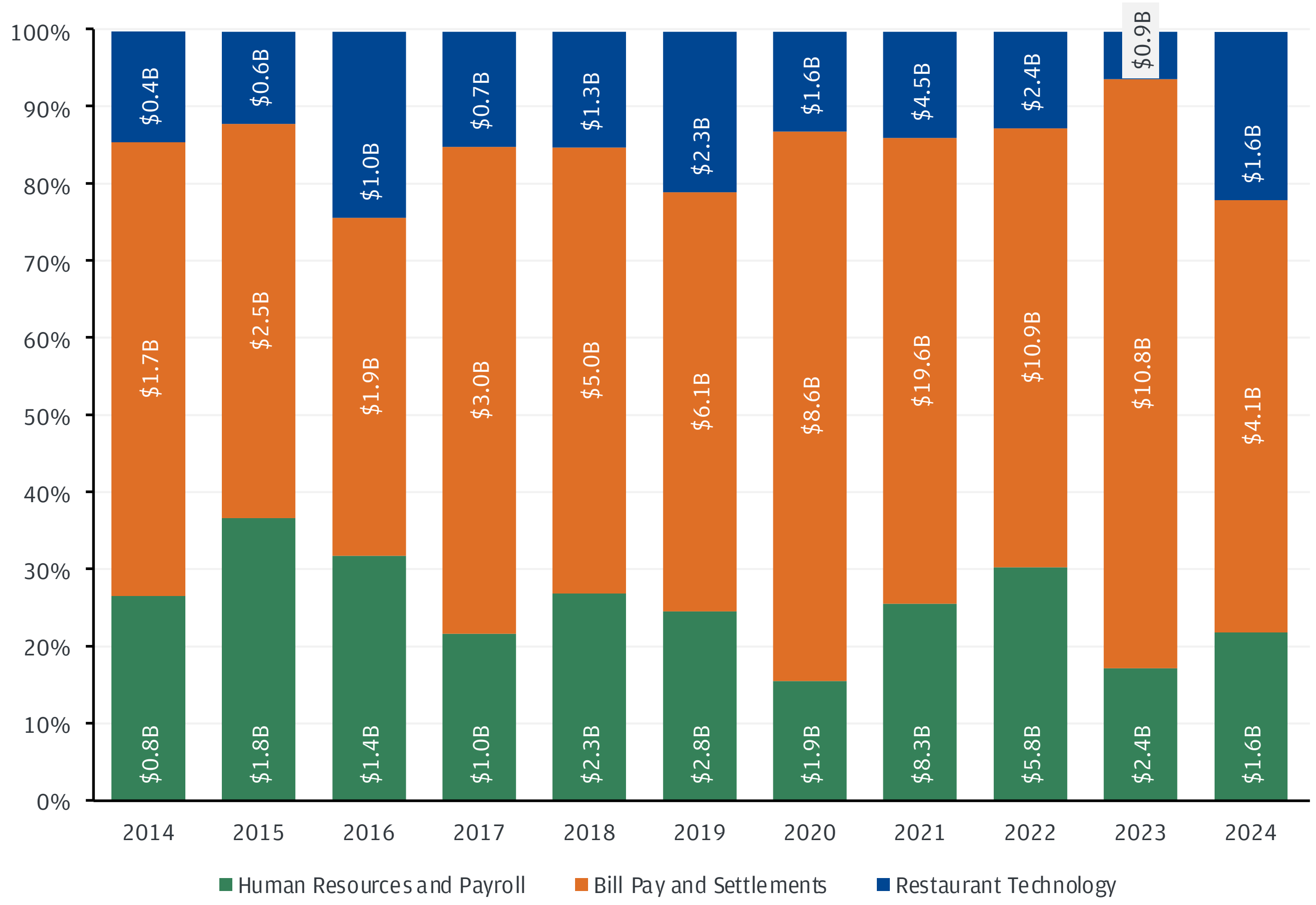
U.S. FINTECH INVESTMENT ACTIVITY SHOWS MARKET MATURATION

U.S. FINTECH VENTURE INVESTMENT AND EXIT ACTIVITY[1]



BILL PAY AND SETTLEMENT STARTUPS HAVE CAPTURED MOST OF PAYMENTS VENTURE FUNDING

U.S. PAYMENTS VENTURE INVESTMENT ACTIVITY AND SUBSECTOR BREAKDOWN



Fintech venture activity has witnessed a decline in recent years, which might reflect a maturing ecosystem that could benefit from fresh innovation to regain its previous momentum. Venture investment into fintech startups reached $18.6 billion in 2024. Despite the broader slowdown, exits of VC-backed fintech startups have remained relatively resilient, especially for M&A and buyouts. This might indicate greater market consolidation, as many non-financial firms are increasingly looking to incorporate fintech elements into their offerings.

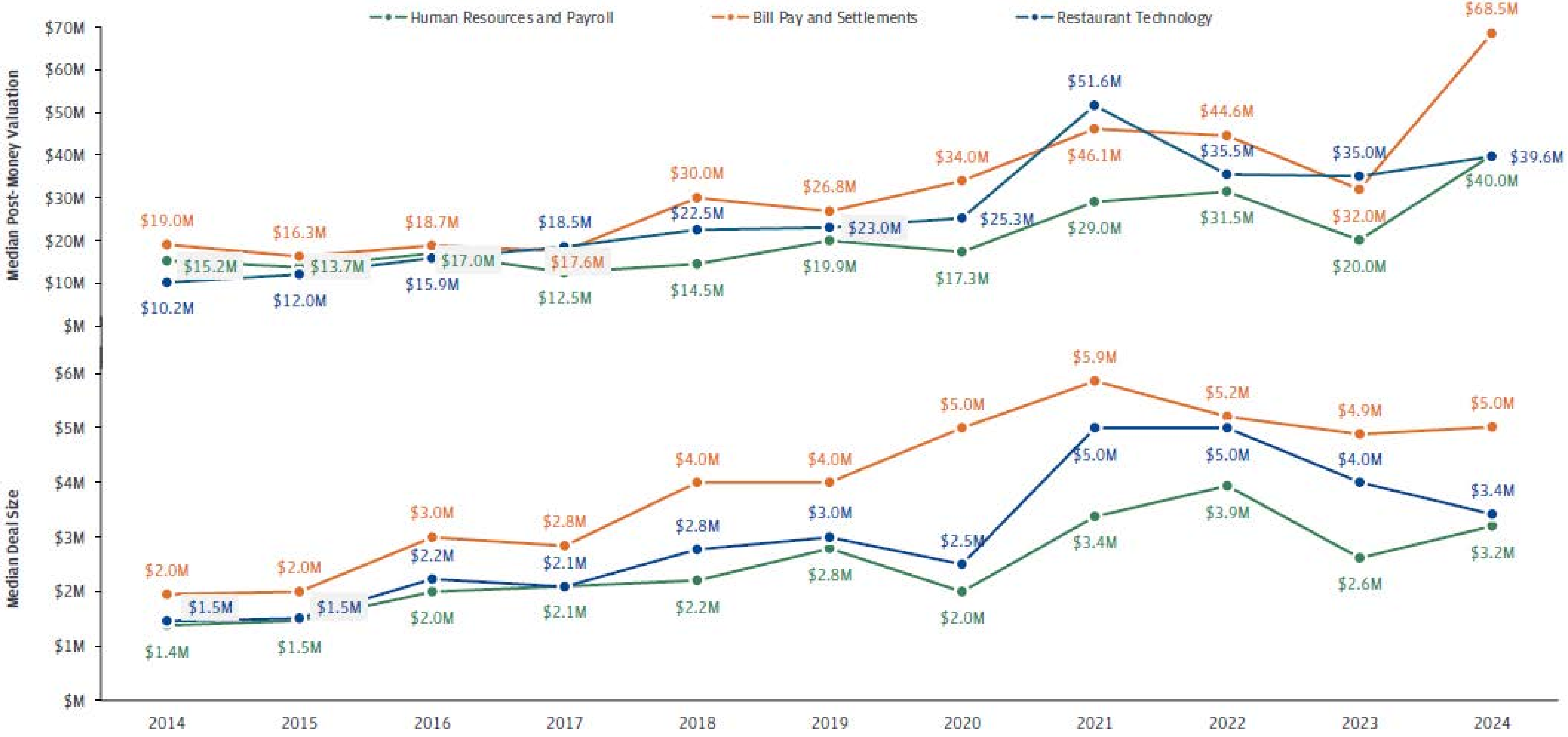
Notes: (1) Exits includes Initial Public Offerings (IPOs), Reverse Mergers, Buyouts, and Mergers and Acquisitions (M&A).

Source: PitchBook. Data has not been reviewed by PitchBook analysts.

Deal sizes and valuations have recovered following the slowdown in venture after 2021 peak

MEDIAN U.S. VENTURE DEAL SIZES AND VALUATIONS BY SUBSECTOR

BILL PAY AND SETTLEMENTS HAVE CONSISTENTLY GARNERED THE HIGHEST DEAL SIZES AND VALUATIONS



Over the past decade, there has been an upward trend in median deal sizes and valuations among HR tech, bill pay/settlement and restaurant tech/POS startups.

This sustained interest from investors may reflect the important role these technologies play in streamlining operations and enhancing efficiency across various industries. As many businesses increasingly seek to optimize their payment processes, these startups are well-positioned to meet the demand for innovative solutions.

Source: PitchBook. Data has not been reviewed by PitchBook analysts.

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03 | Industry trend: Embedding payments

Payment facilitation models offer tradeoffs between control and complexity[1]

Model	Software Referral Model (Non-embedded)	Hybrid Payment Facilitator Model[2] (Embedded)	Full Payment Facilitator Model[2] (Embedded)
Overview	Software company partners with a third-party payment processor and refers users	Software company acts as a sub-merchant under a larger payment facilitator (PayFac), handling some aspects of the payment process	Software company becomes a full payment facilitator, managing the entire payment process
Control over payment experience	Low	Moderate	High
Revenue potential	Low (referral fees)	Moderate (higher revenue share)	High (maximized transaction fees)
Implementation complexity	Low	Moderate	High
Integration effort	Low	Moderate	High
Time to market	Fast	Moderate	Slow
Branding opportunities	Limited	Moderate	Full
Customer relationship	Indirect	Shared	Direct
Risk management	Minimal	Shared	Full
Support and maintenance	Low	Moderate	High

Notes: (1) The comparative outcomes presented are based on historical observations and are used solely for illustrative purposes. They do not represent guaranteed future outcomes. Recipients of this presentation should not rely on these historical observations as a basis for making financial or business decisions. We strongly recommend consulting with qualified professionals who can provide advice tailored to your specific circumstances. We make no representations or warranties, express or implied, regarding the accuracy, completeness, or reliability of the information contained herein.
(2) For the purposes of this report, we are categorizing both the hybrid and full payment facilitation models as "embedded payments."

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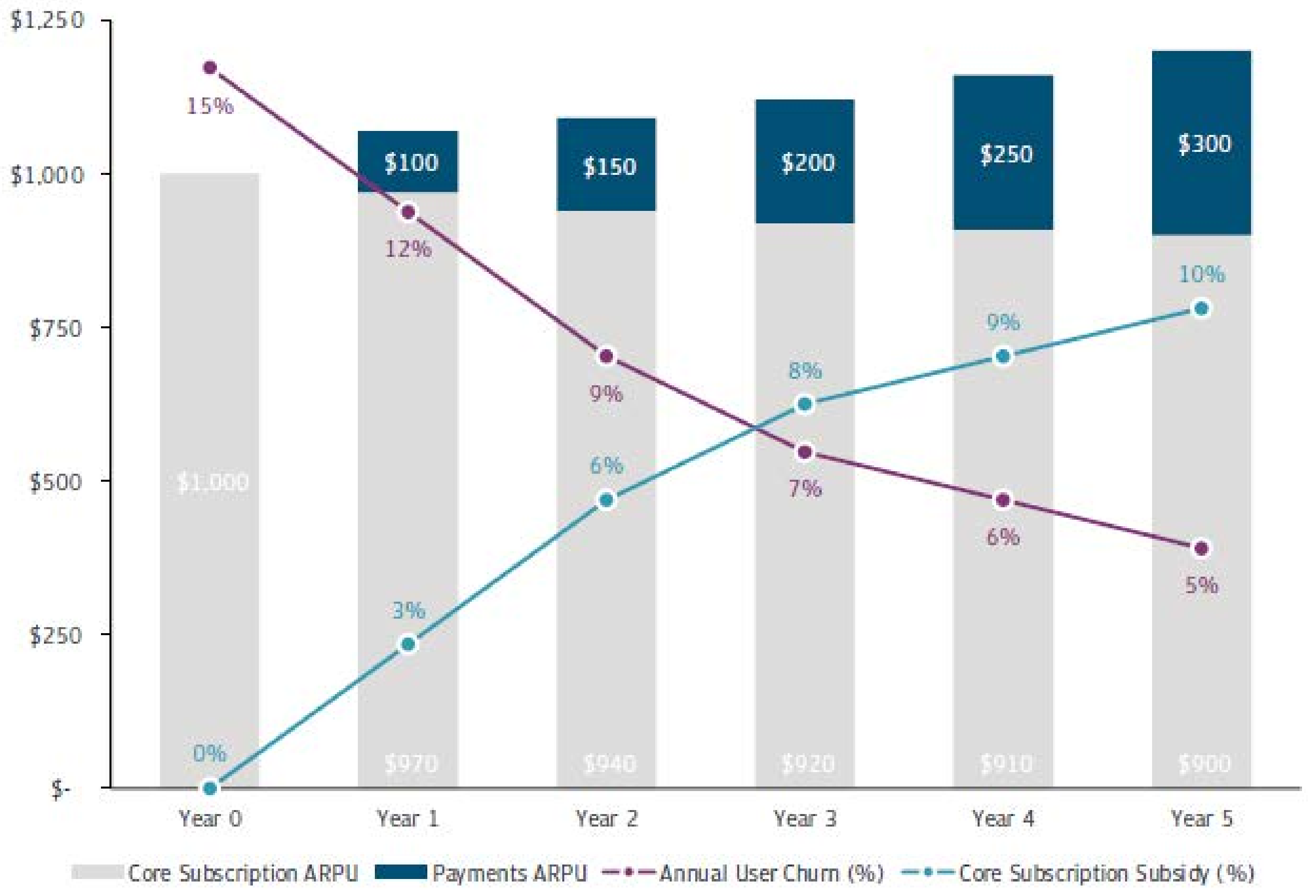
04 | Impact of embedding payments

Leveraging embedded payments can enhance revenue and customer retention

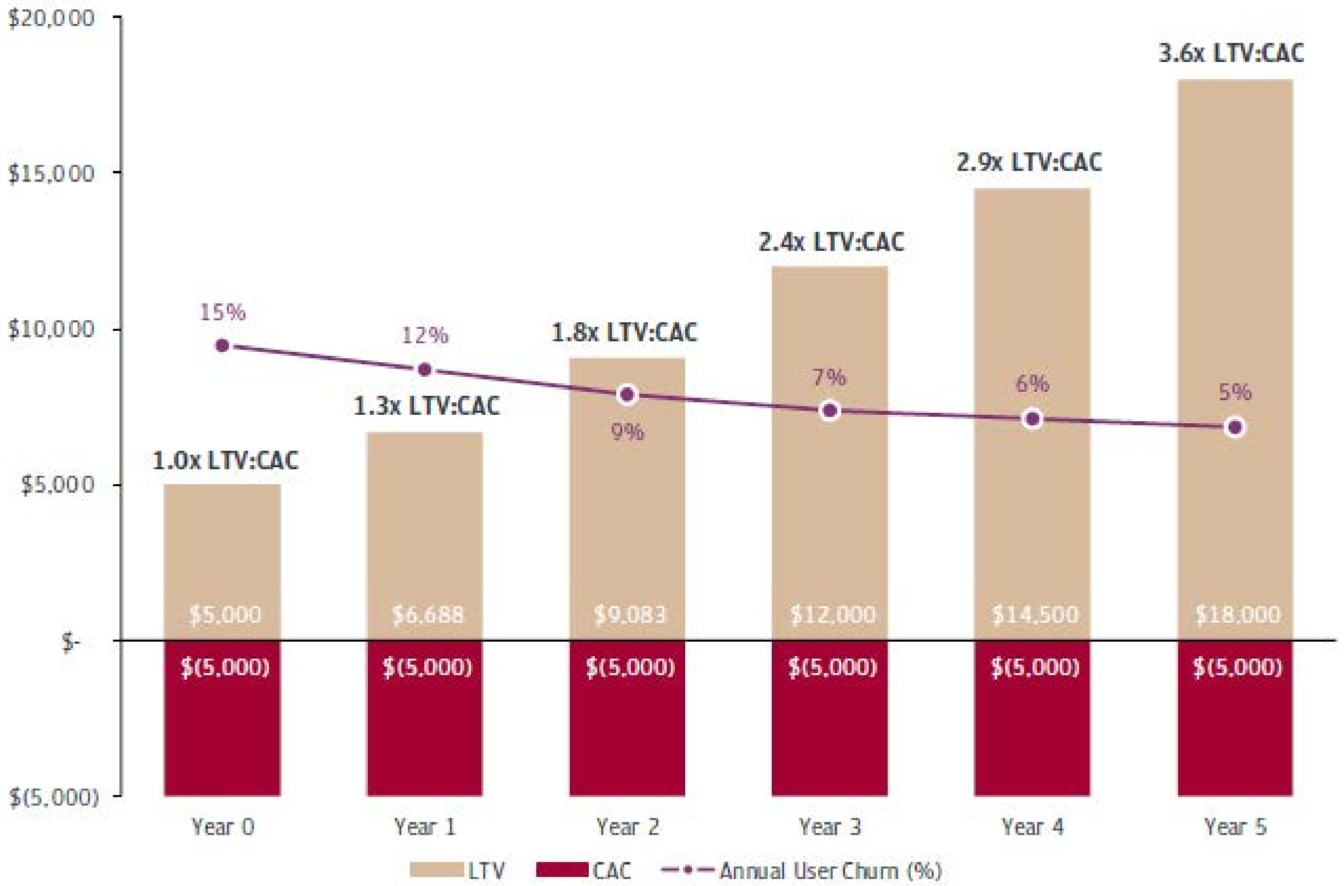
PAYMENTS REVENUE CAN BE USED TO SUBSIDIZE SOFTWARE SALES AND REDUCE CHURN

COMPANY REVENUE, SUBSIDY, AND CHURN ANALYSIS[1]



REDUCED CHURN WITH STEADY CAC INCREASES LTV AND LTV:CAC RATIO

LIFETIME VALUE (LTV) AND CUSTOMER ACQUISITION COST (CAC) ANALYSIS[2]



Beyond just capturing incremental payment processing revenue, embedding payments may offer strategic advantages for software companies by potentially reducing user churn and enhancing customer acquisition. By capturing payment processing revenue, companies may be able to subsidize the price of their core software offering, leading to more competitive subscription pricing. This could result in better customer retention and lower churn rates. Additionally, embedded payments can enhance the user experience by streamlining transactions, which may further contribute to reduced churn. With incremental payment revenue complementing existing core subscription income, companies may see an increase in total revenue even despite the subsidy. The implications of lowering churn are important, as it can improve the lifetime value of customers and enhance the proportion of LTV to CAC, assuming CAC spend and gross profit margin remain constant.

Notes: (1) ARPU: Average Revenue Per User. (2) Assumes a constant gross profit margin of 75%. The assumption of a 75% gross margin is based on a consensus observed among a select group of companies, reflecting industry trends and benchmarks. (3) The charts, payment models and figures presented are based on hypothetical scenarios and are used solely for illustrative purposes. They do not represent actual or guaranteed outcomes. Recipients of this presentation should not rely on the hypothetical numbers or models as a basis for making financial or business decisions. We strongly recommend consulting with qualified professionals who can provide advice tailored to your specific circumstances. We make no representations or warranties, express or implied, regarding the accuracy, completeness, or reliability of the information contained herein.