How vSaaS Platforms are Reshaping Business Operations & the Critical Role of Payments with Brad P...

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SUMMARY

The podcast episode features Greg Myers interviewing Brad Penneykey, VP of Sales at Worldpay, discussing the rise of vertical SaaS and the transformative role of embedded payments in small businesses. They explore how vertical SaaS platforms have become crucial for operational efficiency, customer retention, and the integration of financial services, while also addressing the challenges and opportunities presented by AI in this space.

- *Vertical SaaS has gained traction due to its ability to cater to industry-specific workflows and regulatory requirements, providing faster implementation and higher perceived value.*
- *Embedded payments enhance customer retention and satisfaction by creating a seamless user experience and reducing operational complexities for small businesses.*
- *The integration of payments into SaaS platforms allows for better data insights, predictive cash flow management, and improved fraud detection.*
- *Companies transitioning to embedded payments face challenges in building customer trust and navigating the complexities of financial services.*
- *AI is poised to revolutionize vertical SaaS by automating tasks, optimizing workflows, and expanding monetization opportunities.*
- *Successful platforms view payments as a core infrastructure rather than a mere feature, ensuring a cohesive user experience.*
- *The podcast emphasizes the importance of leveraging available resources and expertise to navigate the evolving landscape of embedded payments and financial services.*

Welcome to The Signal, powered by the Leaders in Payments podcast, where we are cutting through the noise to reveal what truly matters in payments and fintech. Hello and welcome to the Leaders in Payments podcast. I'm your host Greg Myers. Joining me today is a very special guest, Brad Penneykey, the VP of sales at Worldpay, now part of Global Payments. So Brad, thank you so much for being here and welcome to the show. Great. My pleasure and really looking forward to talking with you. All right, this episode is part of our Signal series, where we're cutting through the noise to reveal what truly matters in payments and fintech. Today we're going to explore the rise of vertical SaaS, why these platforms have become so central to how small businesses operate, and how embedded payments is changing the way software companies drive growth, retention, and customer value. We'll also look at what separates the platforms that do this well from the ones that don't, the challenges they face as they expand into financial services, and how AI could shape the next phase of opportunity. So Brad, before we dive deep into this, can you walk us through your professional journey and how you got to Worldpay?

Yeah, absolutely. I have probably a little bit of a unique background in that I started really working for a couple ISVs that we would, you know, probably say are perfectly set for the Worldpay environment. And so I always tell people I've really spent more time on that side of the table than I have been on the payment side. But I've now been with Worldpay for a little over 12 years, got my start in one of the ISVs we actually developed one of the early-on integrated payment processing tools. And so I've been in around payments for probably more than 20, 25 years right now. Okay. Well, most of our audience will be familiar with Worldpay, which obviously is now part of Global Payments. But just for context, can you give us sort of the 50,000-foot overview of the company and maybe sort of where you and your team fits into the broader organization? Yeah, absolutely. Like you said, probably a A of people have heard of Worldpay, but I think they look at it, you know, a little bit differently than maybe I do for my line of business.

So, you know, WorldPay is traditionally been known for servicing really large merchants, and that's been across the globe, hence the name, and it's been through several acquisitions that we've gotten to where we are today. But, WorldPay does payment processing, acquiring all over the world, and the part of the platforms I work on Well, actually, the part of the line of business is called the platforms business. And so, what we do is we service software companies. We help them either embed or integrate payment solutions into their application. And that's a unique part, and so, while we're very large, that's a very boutique part of the global now WorldPay business. Okay. And your specific role, you're running the sales organization for that group, right? Yeah. And actually, I run the business development side of the sales organization. So, we are out in front talking to partners that are looking to monetize or have some kind of payment adoption within their application. Okay. Oh, great.

Okay, well, let's dive into the discussion. So, vertical SaaS has grown significantly over the years, as you well know. What do you think has driven that growth, and why has the model become so attractive across so many different industries? I mean, I think for me, it starts with the fact that industries don't run horizontally. And so, if you just take that as a pure statement, it makes sense that vertical SaaS has really, you know, started to catch on. And that's been, you know, maybe as recent as the last 5 years, but probably 10 years overall. And And I think one of the challenges has been that horizontal applications just, you know, they're really designed broadly.

And so, their applicability is very broad. And they usually fail to capture critical parts of a vertical SaaS company, and that's they often miss industry-specific workflows. They also are not always up-to-date on regulatory and compliance requirements. And then, really last is that, you know, sector-specific data models and terminology. I mean, we call people merchants, they call them practices, they call them customers, they call them all kinds of things. So, when you think about that, it really makes sense that vertical models, you know, have come about. And then I think the other couple points are that, you know, a lot of analysis around this is businesses really prefer industry specific software, and that partly because it mirrors how they operate. And if you think about just that statement, I mean, you know, operating how they operate really instead of a generic platform that might even require heavy customization is really a growing trend and quite popular today. And I think if you want to understand like what does that translate to them, I think, you know, three key things is one, it's faster implementation, less customization. They have a higher day one value, and then the sentiment is the software feels built for me and not adapted for me. Right. So, many of these platforms as kind of we're talking about here have become truly the day-to-day system that these small businesses use to run their business, and I I often call it their it's their operating system. So, how did these vertical SaaS companies like evolve into this mission-critical role for these small businesses? Yeah, I think again there's a couple parts to that, but I think the recent driver has been really late digitizing sectors. So, if you think about health care and construction and real estate and financial services and then even SMB heavy industries, they've really come to the table kind of late.

And so, because of that, that's really kind of driven this mission-critical role where before it probably, you know, they were probably pen and paper or or spreadsheets or something that wasn't quite so operationally embedded in their solution. And then I think the other thing is just what the reason it's so mission-critical is that, you know, a lot of the software companies are looking for really strong retention value props and and the cost of switching systems traditionally was very expensive. And so, I think, you know, every software company is trying to figure out how do I how do I become embedded in these mission-critical workflows? And then importantly, how do I reduce churn? I mean, that's a key ingredient when you talk about SaaS companies. And I think there's just been natural expansion paths for these vertical SaaS companies. And part of that's been the ability to move upstream or downstream in workflows. You know, they might start in the SMB sector, but the work stream allows them to move up to enterprise. And then, what we'll talk about later is that adjacent payment, you know, or adjacent modules. You know, think about things like payments and compliance and even analytics are becoming part of that mission critical.

And then, the other thing is that multi-product or SaaS products that embed and offer adjacent platforms tend to grow faster and retain better than single product or horizontal ones. And then, one last point, which is really a key one, so save it for last, is that this model is really attractive today in capital markets. So, if you think about the dynamics of money today, they because of the valuation reset that's occurred, you know, a lot of M&A activity has shifted towards these vertical platforms. And part of that's just predictable recurring revenue versus a one-time upfront payment, you know, the high net retention value that they bring. And then, maybe not number one, but close, it's just clear path to profitability.

>> Yeah. Before we leave talking about the platforms and start talking about payments and other financial services, you know, one thing that I've kind of noticed just in in being involved in this, not from a point of selling anything or any services, but it seems like a lot of the people who started vertical SaaS software companies were once that small business that had the problem in that vertical. Whether it's roofing or like you said, you know, whatever that vertical may be, field services, you know, health care, they felt that problem and then they created the software. Are you kind of seeing that, too? Yeah, I think that goes back to the point I made earlier. Like workflow streams tend to mirror because a lot of times those individuals as software developers, they built it from experience. They themselves were in property management or they themselves were in retail. And so, because of that, they really understand the need and especially how they want to work aligned with how that company works. And so, I think that's the maturation and why we see such a big impact today. Yeah, totally agree. So, once a platform becomes central to the daily operations like we're talking about, where do payments start to fit in naturally into that workflow? Yeah, I mean, I think some of that is that, you know, you're just starting to see that one, customers, merchants, they really expect it to be native. Like, they don't want this bolted on approach that we've seen in the past. And so, I think that's where you're starting to see that and and the

customer expectations have really greatly shifted. And because of that shift, you know, they really prefer an end-to-end platform versus stitched-together stacks that we've seen in the past, which was really common, right? And you know, just some examples of that that may not uh hopefully resonate is that, you know, think about the concept of one login, right? One system of record sitting in multiples, one support layer that they're dealing with, and then ultimately, you know, one source of the truth for money plus operations. When you start to marry those two together, having that single source is ultimately the key to some other things that they face like reconciliation. And And then I would say for like SMBs and mid-market, payments is super complex. And so, bringing that complexity out and embedding in the solution is is super super critical. And And I think also compliance, too. You know, you're starting to see PCI compliance and and fraud rampant today.

So, understanding the compliance landscape and having a software not only bring, you know, expertise of their provider, but expertise down within the product is an important. And then, I mentioned this already, but reconciliation seems to be one of the most time-consuming processes for most small businesses in mid-market. And so, if you can operationally support this and remove this burden by embedding it, I think it's a big leg up for them. Yeah, absolutely. So, embedded payments and embedded financial services, they obviously have a big impact on a lot of different areas, but let's talk about three, retention, monetization, and overall customer experience. So, why do embedded payments and financial services have such a big impact on those areas?

Well, I think that also points back to when we talk about the valuation aspect. So, embedded payments and monetization of that really starts to let companies look at themselves differently, whether they're in it for the long haul or they're in it to sell to somebody else and and go start a new product. But, I think if you think about lifetime retention, retention leads to key statistics, you know, such as NPR where you're trying to value, you know, what is the value of that merchant to me long time. And and monetization and embedded really plays a massive role in that and that they are likely to keep working with the software company. So, removing an embedded product is not easy to do.

And so, there's a win for the merchant in that they get all these benefits, but then for the software provider, you know, it makes it harder for them just to go shop those benefits when they're stitched together technologies. What about the customer experience? What do you feel? I mean, obviously the single sign-on's a big deal, but what other areas really affect that customer experience? Yeah, I think back to a couple other points. When you have somebody that natively understands how your business operates, then they're really thinking about user interfaces they put it out to the market. So, their expertise combined with having the customer also, you know, be the voice of their product, really provides an overall user interface. And then I think if you look traditionally, a lot of times you feel like you exited the software to go make a payment. It felt disparate. It felt like, "Wait a second, did this switch on me?" And and so, when that happens, I think people you know, there's a trust value that's hard to build back up. And then, you know, you know, the customers start to wonder what is going on. So, when you embedded the flow and it looks like you've never left the application, the customer interface is really smooth, I think you're starting to feel like a trust issue, which again is a really massive part in retention and eventual lifetime value of that customer. Okay. So, let's switch the lens and talk about a little bit from the small businesses side. So, when the vertical SaaS platform, when they truly get payments right and it's a well-oiled machine, what are the biggest benefits for those small businesses that are using that software every day? Yeah, I I think, you know, we'll probably go over some things I've already said, but now you think about SaaS now runs their core business workflow, and it's not just software tasks anymore. It's part of their core application, which includes all the way down to payments or embedded finance. I think customers today expect an end-to-end platform and not having it be disconnected tools as we've talked about earlier. And that expectation comes with deeper and deeper expectations that today it might be payments. Today it could be embedded finance. Tomorrow might be banking as a service. Uh you're starting to see people layer on insurance and payroll and all the things that were always adjacent but not connected or now starting to become part of their workflow. And then I think just payments themselves, they really dramatically improve retention and long-term value.

Vertical SaaS made money flow unavoidable. I think about that statement, like money flow that wasn't really thought about when you developed a ERP solution, right? It was all about the other aspects of inventory control or POS. And so moving that money became such an unavoidable part that embedding it really solved a traditional problem today. And then the other thing is once you embed it, payments unlock valuable data. And then with valuable data comes today, and we're going to hopefully talk about this, is the ability to leverage that data through AI tools. And so then the last thing is just investors and buyers together, you know, reward platforms that control both these workflow and funds together rather than disparate.

>> Okay. Well, what do you think separates platforms that truly build payments and financial services into the fabric of their offering from those that maybe just kind of tack it on? Yeah, I mean, I think first of all, one, when you think about modern SaaS today, payments used to be a fake feature, right? And today they're not. They're infrastructure and strategy. And so when you think about payments being the strategy and the infrastructure supporting that strategy, you know, it really starts to look and feel differently and especially to their customers. And so, you know, you want to make payments feel invisible, right? And I I that's a big part of it. And I think, you know, looking at a separate a separate module instead of this natural step is a cornerstone of embedded payments. And you know, and I think the UI, you know, back to kind of some points before, when you have a natural flow of checkout to settlement to reconciliation, and that all feels and looks similar and they go to one place, I think you're starting to see a real change. And then customers just need platforms to kind of close the loop on business activity. And when you think about it from that way, then it shows that embedded payments just not only drive retention but they're tied to workflow, and they're tied to customer satisfaction, and they're tied to employee satisfaction. And all those things turn into a better experience for for both the software provider and their end customer. Yeah, I think that that end customer too, just kind of putting myself in their shoes, it's got to be a huge time savings too. I mean, I think about the plumber that comes to our house. We use the same plumber for years. And you know, he accepts cards, and he has it on his phone or iPad, whatever it is. And it's like it's all integrated into what he does. And but you think about the guy that doesn't do that, you know, how much time he probably spends trying to figure out who paid, what they paid, you know, all those kind of things. think like from the small business perspective, like the huge time savings of having this all in one place has to be enormous. Yeah, I think that's part of the concept of a native workflow, right? That's the term I use where, you know, before it didn't feel like a native workflow. It felt very disparate. And And then, you know, we only know the front end of that. What happens, you know, your plumber comes out, it's a great example. He comes out, he takes a payment. Now, what happens in the back office? How do they reconcile that payment against their bill? How does How do they get funded from once they do the reconciliation? How does that work downstream through the entire process? And that's where you're really starting to see the SaaS company having that right to to provide the customers a really phenomenal experience. And I think, you know,

when you think about those companies that haven't digitized, right, to that point, like the efficiencies that they get and the flexibility, I think that's the other thing too, is that before like the flexibility was always really tough, right? Like, oh, do we take a check? Do we take a credit card? Are there other forms? And I think payment service, you know, what they begin to do is service what I consider edge cases like multiple payment methods. What happens if they want to split a payment or, you know, how do they deal with other things that happen? And how do you deal with industry specific rules? So, we think about places where there's escrow or where there's maybe co-payments in in some of the industries. All those, you know, all that complexity starts to narrow down when you standardize and and provide that flexibility of an embedded solution. Right. So, as these platforms expand beyond software into payments and financial services like we've been talking about, what are some of the biggest maybe product, go-to-market, and integration challenges that they face?

Yeah, I mean, I hope I have a good one for here because I think this goes back in my career, but their biggest go-to-market challenge is selling money is not selling software, right? Like, you think about, you know, this is the number one challenge we even see still today with companies that they know how to sell their software, but what they don't know how to do is sell money. And we don't think of it that way. We think of them as selling payments, but selling payments is selling the entire flow of money. And with that comes the number one challenge, which is, how do we build customer trust and how do we moderate the sensitivity over risk that that then, you know, comes with that.

Software buyers aren't super forgiving. So, while your software may have an issue, the minute you have an issue with their money, I think now you've got a serious issue, right? Where And I think that's one of their biggest challenges. And so, that that's not just a go-to-market challenge, that's a product challenge, too. Like, how do we make sure and it's also a a selection challenge. How do we go out and find a partner, you know, providing those service to us that that is really strong in the industry and has guaranteed uptimes and, you know, make sure their platform doesn't go down, you know, in addition just to the software platform.

And then, I think, you know, payments buyers are even less forgiving. So, when you think about combining all that to software, now it's a joint challenge that they have. And and I think, you know, the other thing is just the psychological aspect of that, right? You know, they're going to look at reliability, they're going to look at compliance, they're going to look at quality far more than they ever did in the past. And and I think if you look at kind of some of the commentary in the industry, you know, it shows that trust, not pricing, is probably more of a factor today and when we're talking about payments and versions. It may have come across as price, but it manifests what they're really saying is that it's a trust issue. You mentioned earlier in the conversation, so we're not going to close out without talking about it, and of course it's AI that comes up in almost every interview that I do, but it's becoming a bigger part of the conversation across software, vertical SaaS software, and basically everywhere, right? So, how do you see AI accelerating the opportunity for vertical SaaS platforms going forward?

>> Yeah, you saved the big one for last. I mean, I think honestly, you could probably do an entire podcast around AI, but I've tried to think long and hard as AI's been such an important role today, and I think there's a couple ways I look at it, and there's probably lots more, but I'll you know, I'll give you a kind of more more of

my ideas. But I think one thing is that AI turns vertical SaaS into the system of record, which turns into a system of action. So, what do I mean by that is that historically, you know, they primarily recorded and organized the work. Now you're able to optimize and perform the work better yourself. So, if you think about things like, you know, it automates scheduling and underwriting and reconciliation and compliance checks, where before those were such manual tasks that that has a massive impact on both speed and efficiency for payment exception and acceptance. And this move helps SaaS but span from IT budget towards much larger labor and operating costs. So, they think about the cost of converting or think about the cost of acceptance, it's always what don't I know? What are the costs that I'm not used to facing today, and I think AI helps kind of kind of help them conquer that and and understand it better. And then I think the second big one for me is that it just dramatically expands revenue per customer, not just features. You know, it's not just adding capability, it's expanding monetization at the surface level. And I think that's the part we're starting to see come out in AI, and I think you're going to see continued growth around that is how do we better monetize and how does AI help us do that? And I I think, you know, if you look at is some of the leading investors, they see this as kind of the third wave of vertical SaaS growth, you know, with cloud being the first and then embedded fintech being the second.

I think what you'll see happen is that AI replaces and augments a labor-intensive role today. New pricing models emerge, you know, based on usage or outcomes or manage workflows. I think AI helps capture that where that was difficult, and the amount of time that it took to kind of get that information. By the time they got that information, they just didn't execute on it. So, I think back to that execution point. And then the last one I'll leave is that, you know, AI plus payments really supercharge vertical platforms. It gives them a unique, you know, we talked about all their ability, you know, today and why embedded is so important, but now it gives them a unique opportunity to now level up even further. And I think when you combine AI with embedded payments and financial data, what I see platforms gaining the most is just real-time insight into business health. I think before it was always something reactive.

We'd look a month later and go, "How did we do?" And by that time it was sort of hard to act on that data. Number one for a small business, actually all business, is predictive cash flow and risk modeling. I mean, AI tools are amazing. And then the last one I'll leave is, you know, think about automated pricing and some of the fraud detections. And then even downstream collections. Those are, especially the fraud detection, if you look at the AI value prop today, it's it's really strong around all of them, but really fraud detection stands out.

Yeah, I think the fraud one is huge. I think the one before the very last one where you talked about sort of the real-time insights. I mean, I think that's a game-changer for these small businesses. I mean, as a small business owner myself, it's kind of like you said, looking at what happened in the last 30 days is great, but if you can have something that helps you figure out going forward things and insights and those kind of things, ways to make more money, save more money. I mean, to me, and given that it's all embedded into the software and you've got all that payments data, I mean, it just to me, it's a huge game changer just from that sort of insights perspective. I completely agree. All right. So, before we go, one final question. If you take all this content that we've talked about, all this great insight you've shared, what is the one key takeaway that you hope the audience remembers most from this conversation when when they think about embedded payments?

Yeah, I think the challenge for me is coming up with one key one. I think there's probably several, but if I had to isolate it out, I would probably leave the audience with this that the one, you're not in this by yourself. I mean, if you think about everything, there are consultants, you know, the payment providers, your software provider. If you look at all the learnings and the expertise that span just those three entities alone, let alone AI going out and searching in the public sector right now, I think just remember as you're going through this, whether the topic is compliance or the topic is pricing or the topic is, "Hey, I need somebody to write the code for me and can an AI tool do that?" I think, you know, realize that that there's just so many people out there to help you and if you employ help and you do it diligently, then I think the experience is only going to be enhanced. Okay.

Well, I think that's a great way to wrap up the show. So, Brad, thank you so much for being on the show today. I know your time is very valuable, so I really appreciate you being here. Uh thank you, Greg. Fully enjoyed it and I hope the audience does as well. Okay. And to all you listeners out there, I thank you for your time as well and until the next story.