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ACI Worldwide touts cloud growth, retailer momentum

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At its annual analyst conference, ACI Worldwide was keen to discuss its shift to the cloud – the fastest-growing area of its business. The vendor began to see cloud revenue accelerate around 2013 and witnessed its most significant growth last year. Merchants are proving to be a strong driver of this momentum, underscoring the company's growing interest in this segment.

THE 451 TAKE

A cloud-based, SaaS delivery model is attractive to ACI for several reasons. Aside from offering steadier and more predictable revenue, cloud deals mean that the company is offering a full service that results in a higher overall contract value, not to mention fatter margins and faster deployment cycles. For its customers, attributes such as speed to market, operational efficiencies and scalability are proving to be cogent selling points. ACI's retailer clients are showing the greatest interest in cloud delivery, in part a testament to the company's continued investments in merchant technology. Moving forward, we anticipate that ACI will continue to double down on the retailer opportunity as it looks to exploit growing interest in deploying omni-channel payment technologies.

STRATEGIC VISION AND BUSINESS DRIVERS

As a percentage of revenue, ACI's cloud deployments have grown from 11% in 2011 to 40% last year. The company now has over 4,600 customers utilizing ACI On Demand, its hosted SaaS delivery option, with contracts that generally range from three to five years. It offers several services on this model, including its retail and wholesale payment engines, risk management, and biller and merchant products.

The ACI On Demand customer base has evolved from primarily banks several years ago into a mix of retailers, financial firms and billers. Specific customers include Domino's Pizza, Finish Line, Kohl's, Alipay and the US Internal Revenue Service. Merchants have been a particularly strong driver of growth for ACI On Demand, with its retailer pipeline strengthening by approximately 10% year over year.

A market it largely passed over earlier in its history, ACI has become aggressive about the merchant opportunity in recent years. The vendor bolstered the capabilities of its Universal Payments framework from a retail – and cloud – standpoint in July 2014 with the \$205m acquisition of antifraud vendor Retail Decisions and in November 2015 with the \$200m purchase of e-commerce gateway services provider PAY.ON. These additions are helping to fortify ACI's cloud value proposition for merchants while strengthening its position in card-not-present (CNP) channels. Today, merchants are ACI's fastest-growing segment.

Compared with banks, which have been slower to migrate from on-premises deployments, merchants have demonstrated a healthy appetite for the cloud. The drivers fueling these deployments are plentiful. Solid growth in e-commerce and an industry-wide push toward omni-channel are creating tailwinds as more merchants seek opportunities to increase choice and control over their payment strategies. ACI's cloud model affords merchants the opportunity to neutralize their payments infrastructure, limiting their dependency on a single provider such as an acquiring bank, while reaching both card-present and CNP channels globally. Retailers have proven adept at pursuing strategic opportunities to lower costs and increase sales – a promise ACI aims to deliver on through capabilities such as least-cost routing, decreased regulatory and security burden, and support for more than 400 endpoints (e.g., payment types, acquiring banks) across some 160 countries.

The company was quick to emphasize its continued investments in the cloud as it prepares for further growth, most recently with the opening of its Limerick Ireland datacenter in October to better serve the European market. While ACI has no plans to distance itself from on-premises deployments, which still serve as a growth engine and are popular among banking clients, over three-quarters of its merchant customers are now opting for cloud delivery.

CUSTOMERS

At the conference, ACI On Demand business leaders shared several merchant case studies that highlighted the benefits a cloud-based payments infrastructure can deliver. One of the more unique examples was with a leading global e-gaming platform vendor that was dealing with the burden of strong lock-in with a single acquiring bank. The acquirer had full control over the merchant's payment tokens, resulting in an inability to negotiate for lower costs, not to mention poor conversion rates in international markets due to limited payment acceptance options. ACI worked with this merchant to migrate all of its tokens away from a single acquirer, giving it greater flexibility to renegotiate for lower rates and the ability to move into new countries and work with local acquiring partners. Through the collaboration, ACI will also be helping the merchant launch Apple Pay and Android Pay acceptance globally, removing the burden of security and key integration with each individual acquiring partner.

In what we saw as its most compelling demonstration of capabilities, ACI spoke about its omni-channel collaboration with Domino's. ACI revealed that it is the provider of Domino's underlying cloud-based payments infrastructure and component security and tokenization services across all of the channels that it serves. Its cloud service enables the pizza franchise's customers to transact through as many as 10 different channels (e.g., mobile, online, in-store, Amazon Echo). ACI cited the scalability of its cloud as a particularly strong selling point in this instance, given Domino's demand for a service that could support extreme volume spikes, such as during Super Bowl Sunday.

COMPETITION

ACI's retail-centric competition includes major merchant acquirers and third-party payments software providers. While ACI offers vendor-neutral technology, in most cases it competes with vendors that offer a complete payments service. More tenured rivals in this regard include First Data, WorldPay, Heartland Payment Systems and CyberSource, while newer entrants include Adyen and Square. ACI also encounters Ingenico and Verifone, particularly due to their respective acquisitions of GlobalCollect and AJB Software Design. We would also consider IT giants IBM, HPE and Oracle contenders in larger retail deals.

SWOT ANALYSIS

STRENGTHS

ACI has a strong value proposition for retailers seeking greater control and flexibility over their payment strategies. Recent acquisitions have helped bolster its merchant capabilities.

WEAKNESSES

Services revenue will negatively impact customers' transition to a hosted model. ACI must continue to commit resources to its on-premises services, which are still popular among financial institution clients.

OPPORTUNITIES

Industry trends surrounding retailers' pursuit of omni-channel commerce and enhanced focus on the customer experience pair well with ACI's cloud narrative.

THREATS

Emerging competitors such as Adyen are posing an increasingly pertinent threat. Hiring top cloud talent is increasingly challenging.