swan

The easiest way to embed banking features into your product.

Embedded Finance: the solution to the VC pullback

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Positioning your company during an economic slowdown

Tech companies are currently interested in how they can keep costs stable and find innovative paths to profitability.

Freeze your hiring!

Cut back on marketing!

Extend your cash runway!

As headlines on economic uncertainty dominate the tech news, venture capital firms are urging their portfolio companies to cut costs and look for ways to cushion their cash position.

Sequoia's confidential advisory note predicted a prolonged market downturn. "Sustained inflation and geopolitical conflicts further limit the ability for a quick-fix policy solution", it wrote.

"The safe move is to plan for the worst", said **Y Combinator** in an email to its founders. **Andreessen Horowitz** tone is lighter, yet cautious: "Keeping a close eye on cash outlay and having scenario plans will enable you to quickly adjust spending and investment in response to performance".

Hypergrowth at any cost is no longer acceptable. Now that the easy-money era is over, how do tech companies take on the challenge of profitable growth?

Positioning a company during a market slowdown is perhaps the biggest challenge a founder could have in their entrepreneurial journey. While there is no clear picture of how the funding slowdown will unfold in the upcoming months, it's unanimous that investors are paying more attention to capital efficiency.

Keep control of your burn multiples

In their Framework for Navigating Down Markets, a16z suggests to look to your **burn multiples**: the amount of cash burned compared with revenue generated over a certain period of time.

Burn Multiple = Net Burn / New New ARR

Let's say a company burns $50M while making $10M of net Annual Recurring Revenue (ARR). That makes for a very, very high burn multiple of 5x. Companies should instead aim for a declining burn multiple, which would indicate they are becoming more efficient at generating revenue. A good burn multiple for companies beyond Series B, according to the legendary SaaS Funding Napkin, is below 2x.

	Pre-seed	Seed	Series A	Series B
ARR	-	~ $0-1M	~ $0.5-2.5M	~ $3-5M
ARR growth (YoY)	-	n/a if pre-revenue, otherwise ~2-3x	~ 2-3x	~ 2-3x (occasionally 1.5x)
Valuation	~ $3-12M	~ $5-15M	~ $25-75M	~ $60-180M
Round size	~ $1-2M	~ $1-4M	~ $6-18M	~ $10-40M
Capital efficiency	-	Resourcefulness, ability to get a lot of things done with a small team	Burn multiple < 3-4x	Burn multiple < 2x

Source: SaaS Napkin

So, how much money have you been spending to generate more net revenue?

By tracking your burn multiples closely, you can set appropriate ARR goals, and prioritize ruthlessly.

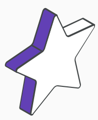
Crank up your LTV-to-CAC ratio

It's not all about budget constraints. Controlling burn might seem the obvious lever to decrease your burn multiples, but how about increasing your ARR without significantly impacting your cash reserves?

That's the best case scenario: you continue growing AND move closer to Independence Day, that day when your company is actually making a profit rather than losing money through its operations. One way of getting there is by pumping up your LTV-to-CAC ratio.

LTV: CAC ratio = Customer lifetime value / Customer Acquisition Cost

The prevailing wisdom is that a company with a ratio greater than three is doing well. To improve your customer lifetime value while keeping acquisition costs stable, you basically need to...



Reduce CAC by expanding value proposition

Improve LTV by uplifting average revenue per user

Improve LTV by extending customer lifespan

With Embedded Finance, you can achieve all three of the above.

Embedded Finance is the seamless integration of financial services into products of a non-financial organization. With embedded finance, the flexibility and potential for the customization of financial flows within digital products are endless.

Embedded Finance is the path to profitability

Embedded Finance empowers product leaders to enrich their software with banking flows that drive engagement, boost user retention, and create new revenue streams.

Make your product stickier

The banking industry's first secret is that it's a "sticky" business. When you use apps and services with banking involved, you become closely tied with those systems. You're more "stuck" to the product, as a result. Mobile banking retention rates are extremely high – higher than for almost any other type of app.

Financial apps, personal or professional, have a head start when it comes to relevance: by definition they're important to most users. These apps become especially sticky once banking features are added to them, allowing users to earn, store, manage, and move money without ever having leaving the platform.

This deeper level of integration significantly reduces your users' likelihood to churn.

Add revenue streams on top of existing business

Much about a product's success hinges on a smart pricing model. People usually assume that the better the product, the more you can charge for it. But higher subscription fees aren't the only way to monetize a product. Embedded finance opens up powerful new revenue streams:

Type of revenue	Payment revenues	Interchange revenues	Financing revenues	Software subscription
Description	Charge transaction fees	Get a cut of the transaction fees paid to card issuers	Charge for money you lend to customers	Charge for access to financial features
Example	€0.25 markup on every SEPA payment sold at €0.40	€100 in corporate card spend generates €1.50 in interchange	4% interest rate on a €10k business loan	€20 / month in additional subscription fees
To calculate, you should consider...	- Payment frequency - Payment volume - Payment markup	- Spend type - Average monthly spend per card	- Financing volume - Financing terms - Credit risk proprietary data	- Value to end-customer - Other revenue streams charged

Generate revenue by charging transaction fees

e.g., €0.25 markup on every SEPA payment sold at €0.40

Consider variables such as payment frequency, volume and markup

Payment revenues

Payments are a perfect entry point into financial services: these features generate data, trust, and very likely, additional banking needs.

With embedded finance, companies can facilitate accounts and payments just like a regular bank — and earn revenue from transaction fees. For European companies embedding finance, they're connected to the SEPA network, which is how real-time bank-to-bank transfers are made. Such operations can be push payments, where the payer initiates the sending, or pull payments, where the payee pulls funds into their account (like with direct debit).

In terms of monetization, it' straightforward. Let's say a software company pays €0.15 for a SEPA Direct Debit, and decides to charge their customer €0.40 for this payment. Each SEPA transfer will generate a net revenue of €0.25.

Tech companies can make a margin on transfers, charging a fixed fee, sometimes even a percentage, on each operation performed.

Providing the user base is large, these small streams will eventually create a big river of cash flow!

Generate revenue by getting a cut of card processing fees

e.g., €100 in corporate card spend generates €1.50 in interchange

Consider variables such as spend type and average monthly spend

Interchange revenues

The secret sauce of the payment business is what we call interchange. This is a common revenue driver for fintechs today. Banks, neobanks (e.g. Revolut) and even retailer companies (e.g. Ikea) all generate very meaningful revenue from interchange.

Interchange is a fee a merchant must pay with every credit and debit card transaction. Rates are set by payment card issuing companies in exchange for accepting the credit risk and handling charges inherent in these transactions.

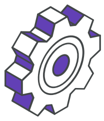
Interchange allows the card issuer (this could be your company, via embedded finance) to take a portion of each payment made with its cards.

Therefore interchange is calculated per transaction. For example, for every €100 spent with a card, the issuer gets around €1.50.

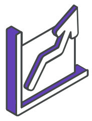
Many other variables are taken into account, including issuing country, type of card, total transaction amount and even the merchant category. Be aware, the perks of interchange are less relevant in the consumer space. A European 2015 antitrust law caps consumer card interchange fees: 0.2% for debit and 0.3% for credit cards. Corporate card fees, however, are not regulated.

Corporate card fees often range between 1%-1.50% , depending on variables such as issuing country and type of transaction.

So, consider the average monthly spend per card (per account) when including interchange in your revenue projections. This may vary wildly between use cases, but our partners typically model between 5-8k € for SME business expenses.



Generate revenue by charging for money lent to customers



4% interest rate on a €10k business loan

Consider variables such as financing volume and terms and credit risk

Financing revenues

Credit revenues are what they sound like. You give your customers the funds they need today and expect them to pay them back in the future, with an added fee or with interest. The income companies get from credit revenue depends of course on the financing volume and terms.

What's interesting about embedded lending, especially for B2B, is that in many cases platforms can create innovative financing options that banks don't even offer.

For starters, banks aren't specialized enough to address many niche financing needs. And when it comes to the quality of customer data, banks aren't anywhere near as strong as tech companies. With deeper visibility into the dynamics of their customers' lives and businesses, tech companies are able to make more informed lending decisions and even take automatic repayments as a percentage of future earnings — as it happens with revenue-based financing.

Generate revenue by charging for access to financial features

€20 / month in additional subscription fees

Consider any additional revenue streams and value provided

Software subscription revenue

Last but not least, the most obvious source of new revenue: charging more for your software subscription. It's only natural to add to your subscription fee when you've added new features and improved your overall customer experience. Based on our experience, we estimate that tech companies increase their software subscription price by up to 20% after integrating financial features.

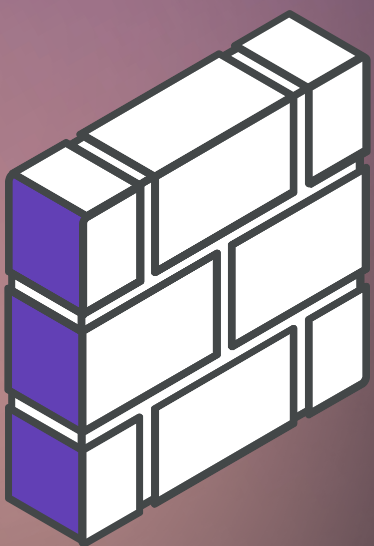
Perhaps, by adding an extra €20/month to your software subscription, you can afford to offer payments at a cost, or you could share interchange as part of an incentive program and still end up with a great revenue stream from software subscription. **You can experiment with a range of pricing strategies:**

High-margin software + low-margin financial features

Medium-margin software + medium-margin financial features

Low-margin software + high-margin financial features

The 3-Step Masterplan: how do you embed financial features?



Based on our experience building with partners, we have developed a masterplan to embed financial features in actionable steps.

1 Know your customer and scope product needs

If you are customer centric, starting and ending everything with your customer will feel familiar. A good starting point for embedding finance is answering a deceptively simple question:

How can my platform make my customers' lives easier?

That's right, before opening bank accounts or planning a pay-with-a-click button, you'll have to deep dive into your customers' needs.

Run surveys, get direct feedback, identify relevant consumer segments, generate product usage data, and evaluate pains and motivations throughout the customer journey. In possession of this revealing information, think about what really advances your value proposition. What brings your product closer to your company's ultimate vision? By sticking close to your values and executing on a validated hypothesis, you'll be able to level-up your users experience with purposeful features.

2 Assess potential costs and impact

Remember all that talk about burn multiples and cash efficiency? You don't want to go investing money (and time!) in something you're still not confident about in terms of return. Your business case needs to be bullet-proof. Of course, your profitability will vary according to the features and financial flows you have in mind. Start ideating and back up your business case with projections based on data:

– Number of potential users
– Number of likely adopters in the first year
– Potential value for the user
– Monetization potential

When assessing development costs, keep in mind most of our partners have been able to launch an early version of their product in just 4-6 weeks with 1 product manager and 2 developers. And remember your scope: you won't be able to fit all the desired banking features in at once. Dream big, build small, and carve your way to the MVP - the notorious Minimum Viable Product.

3 Build and launch a banking MVP

Once you have a general idea of what you'd like to achieve with your first financial product, it's time to understand how fast and how cheap you could launch this first minimum **valuable** product. The way to go is to test risky assumptions as cheaply and as early as you can.

Finally, it's time to build! Call your developers, dive into BaaS documentation, and start integrating. If you really want to launch fast, you can count on no-code white-labeled banking apps. Or, let your developers take customisation even further with APIs. When you're ready to launch your MVP, it's important to perform a compliance check to ensure your project follows banking regulation.

When you're ready to launch this initial version of your financial product, make sure to test it out with loyal beta customers — users always know it best. You might believe the set of 7 features your research suggested is what your users want, but you don't really know for sure until the product is out there.

Afterall, people interact with digital products in surprising ways. By launching quickly, getting instant feedback, and tracking user behavior, you will better orient your product development. And remember to communicate: make sure your users know all about your new features and the benefits of using them, to ensure adoption. After your first bank offering takes off, you'll be empowered to iterate with more and more financial features along the way. Build based on your users' behaviour and you'll end up with a killer product.

When thinking about product development, it's important to understand the revenue impact a new set of features can have. Embedding financial features and tailoring them to your core users' specific needs significantly improves your customer journey and brings you closer to profitability.

Try our calculator and see how much additional revenue you could generate with Swan.

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About

Swan is the easiest way to embed banking features into a digital product. Via Swan's simple APIs, European companies can integrate banking services (accounts, cards, and payments) quickly and easily into their own product.

Founded in 2019, Swan raised over 21M€ - with a 5M€ Seed led by Creandum in 2020 and a 16M€ Series A led by Accel in 2021.

Listed as "Europe's rising 100" by Sifted, Swan is currently expanding across Europe with offices in Germany, Spain, and France.