



# The Green Sheet

The Financial Services Industry Source for Education, Inspiration and Actionable Advice

September 8, 2003  
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## Insider's Report on Payments

# Stopping the Paper Flow: Will Truncation Eclipse ACH Conversion?



By Patti Murphy

Check truncation is coming of age. This is no small feat, given 30 years of false starts and the fact that it has required an Act of Congress to make truncation an acceptable business proposition. One question I have, though: What becomes of ACH check conversion once check truncation becomes the law of the land?

The answer, I believe, is that check conversion stalls.

If Check 21 is signed into law – and indications are that this pro-truncation law will be enacted before the year is out – there doesn't seem to be much of a business case for retailers

to embrace check conversion.

ACH can be a risky business, and retailers are risk averse. Check law and practices, as amended by Check 21, offer several advantages over the ACH that I believe compel many to shun ACH-based check conversion schemes in favor of check truncation.

And I'm not alone. I've run this thought by several longtime payments mavens. A comment from Brandes Elitch at CrossCheck pretty much sums up the consensus: "If I were Safeway, I wouldn't do it."

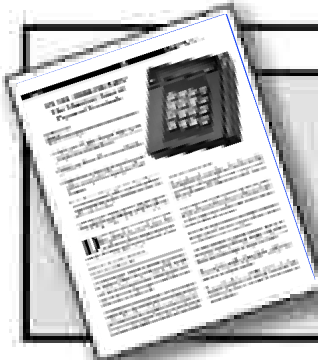
ACH check conversion was pioneered several years ago by organiza-

**See Truncation on Page 43**

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**See Story on Page 14**



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Robert,  
The regional acquirers' association meetings are proving to be very popular with the MLS community, and one of the reasons for their success has been the very affordable pricing. However, we still believe that EVERYONE in this industry should attend an ETA expo at least once. This tradeshow is the only forum in our industry that can give a sales professional the hands-on experience of the magnitude of components and players within the industry.

Editor

### Open Letter to ETA from Agent at Small Office

To: Electronic Transactions Association  
Re: ETA Strategic Leadership and Networking Forum,  
September 16-18, 2003, Boca Raton, Fla.

Your efforts with the Cyber Cafe are on the right track in terms of trying to make the networking a stronger focus, but your entry fees for the event are still way too high for a smaller office.

I considered coming this time to hear Frank Abagnale, but \$330 just for that day? \$75, yes. \$330, no. Southwest is running specials to a nearby city, and car rental is cheap enough. But \$330, \$450 and the non-member price of \$700 all are out of line for a sales office that isn't seeking new vendors. There are other venues that offer the same networking opportunities at far less cost.

Please consider:

- (1) Becoming more friendly to the single agent/smaller office with a lower membership fee.
- (2) Offering a reduced fee for the single agent/smaller office to attend.

There are two new groups beginning to do that, and the word on the street is that ETA is no longer relevant to the smaller office. I hope you will find this information helpful. I wouldn't have written you if I didn't hope to participate in your efforts. Thank you again for your efforts to improve.

Sincerely,  
Robert Mohon

### Goodbye ... for Now

Paul,

I have enjoyed serving on The Green Sheet's Advisory Board for the last 18 or so months. Your publication serves a real need in the ISO community for timely news and information and has been doing so since I first became involved in the credit card acquiring business back in early 1994.

Pursuant to Bridgeview Bank's sale of its Bridgeview Payment Solutions subsidiary to NPC in June of this year, I have exited this wonderful industry at least for a period of time to pursue other opportunities.

I wish you and your staff continued success with all of your publications.

Very truly yours,  
Tom Haleas  
Bridgeview Bank Group

### Getting Smarter on the Street

Paul,

The "Street Smarts" articles by Ed Freedman are already making an important difference for me. In my 30 years of selling, I have never read a better, more reasoned article than his advice on how to best pursue prospects in our business. Thank you for publishing it!

Robert Van Sprague



# INDUSTRY UPDATE

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## NEWS

### Retailers' Lawyers Want \$550 Million in Fees

Lawyers who represented Wal-Mart and millions of other retailers in the settled class-action lawsuit against **Visa** and **MasterCard** over debit card fees have asked for more than \$550 million (or about 18% of the settlements) plus expenses for their services – some of the highest class-action legal fees in history.

The New York law firm of **Constantine & Partners** represented the retailers and worked (without pay) with 29 other firms throughout the seven-year case. The firm filed its request in U.S. District Court in Brooklyn, and Judge John Gleeson will preside over a hearing on the issue on September 25, 2003.

### e-Commerce Sales Climb in Q2

The **U.S. Department of Commerce** reported that Q2 2003 retail e-commerce sales (not adjusted for seasonal, holiday and trading-day differences) totaled \$12.5 billion, an increase of nearly 28% from the same period last year and an increase of 4.6% from the previous quarter. Online retail sales accounted for 1.5% of total retail sales in Q2 2003. Overall retail sales totaled \$858.8 billion, an

increase of 4.9% from the same period a year ago and an 11.9% increase from the first quarter of 2003. The department began tracking e-commerce sales in 1999.

### FDC and Bank One Butt Heads

**First Data Corp. (FDC)** and **Bank One Corp.** have not been able to agree on the final terms of their partnership and are going into arbitration to settle the matter. Their dispute is over processing fees and whether FDC will charge Bank One the current rate for processing after their contract expires in June 2004. In March 2003, Bank One announced plans to move its credit card processing business in-house and said it would not renew its contract with First Data. While Bank One transitions to its own system, First Data had offered to continue processing through September 2005 unless given six months notice. The agreement was never finalized.

### U.S. Navy Credit Cards Compromised

**Hackers** broke into **U.S. Department of Defense** systems in July and downloaded billing records containing credit card numbers, the Washington Post reported. As a result, the Navy canceled 13,000 credit cards used for government expenses.

Citibank was the issuer of the credit cards and said no unusual activity has occurred on the card accounts. The



- ▶ **The Conference Board's Consumer Confidence Index** increased nearly five points in August to 81.3 (out of 100), recovering from a July drop to 77. The Index is based on a survey of 5,000 U.S. households.
- ▶ **Circuit City Stores, Inc.** plans to sell its bankcard operations (including approximately \$1.5 billion in receivables) because, the company said, it is not key to its long-term growth plans.
- ▶ **Convenience stores** are popping up in all types of strange locations. To increase its customer base, international retailer **Lawson** is opening stores in Tokyo subway stations, post offices and, most recently, inside the main Tokyo branch of Hokuriku Bank, which will operate 24 hours, the National Association of Convenience Stores reported.
- ▶ **The Pantry, Inc.**, a convenience store operator, plans to acquire 138 **Golden Gallon** convenience stores from **Ahold USA**.
- ▶ **Mexico's National Association of Supermarkets and Department Stores (ANTAD)** reported that its members' total sales increased 4.3% in July 2003 compared with a year ago.
- ▶ **U.S. retailer Bonus Stores, Inc.** will sell or close 214 Dollar Stores and Bonus Stores located in Alabama, Arkansas, Florida, Georgia, Kansas, Louisiana, Mississippi, Oklahoma, South Carolina, Tennessee and Texas.

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break-in was discovered on July 30, 2003, when an unusual amount of traffic was detected on a server at a logistics center at Wright-Patterson Air Force Base in Dayton, Ohio.

### High School Benefits From ATM Fees

After receiving one too many bounced checks from students and parents, **Grossmont High School** in San Diego adopted a cash-only policy for payments and installed an ATM on campus, the Associated Press reported. Users of the ATM are charged \$1.50 per transaction; the owner/operator of the machine collects 25 cents, and the remainder of the fee goes to school activities. On the first day of registration, the machine dispensed more than \$4,000.

### Study on What Drives Salespeople

What motivates you to sell? A recent study conducted by two researchers at **Baylor University** asked 40,996 salespeople in eight countries this question. Here are some of the results:

- 33% of U.S. salespeople, 36% of salespeople in the U.K. and 19.4% of salespeople in Singapore work primarily to earn big incomes.

- In Australia, only 12.3% said money motivates them because "opportunities to use abilities" (28%) and "freedom from routine" (22.5%) are considered more important.
- Only 11% of New Zealand salespeople said they sell primarily to make money; 26% said they are motivated by novelty, stimulation and change; and 27.3% seek opportunities to express their talents and abilities.
- U.S. salespeople were the most service-minded of the group; 14% of American salespeople said their primary motivation is "being of service to others."

The countries polled were the U.S., Australia, Canada, New Zealand, Norway, United Kingdom, Sweden and Singapore. A full copy of the research is available online at <http://business.baylor.edu>.

## ANNOUNCEMENTS

### Catuity Receives U.S. Patent

**Catuity, Inc.**, a provider of software for point-of-sale loyalty programs, received a U.S. patent for its technology that allows the memory space on smart cards (and other data-carrying devices) to store data for multiple applications and systems that manage applications, devices and terminals.

### Comstar Receives Patents for CHARGE ANYwhere

The U.S. Patent and Trademark Office awarded **Comstar Interactive Corp.** U.S. Patent 6,543,689 for the device that transfers power and data between a pager and attached magnetic stripe card reader of the CHARGE ANYwhere wireless credit card processing solution. This is the second patent awarded to Comstar for CHARGE ANYwhere in the last seven months.

### Hypercom Announces Stock Repurchase Plan

**Hypercom Corp.** announced a stock repurchase program of up to \$10 million in common stock. A stock repurchase plan allows a company to buy back shares of its own stock, which reduces the number of outstanding shares in the marketplace, thus increasing share value because of less supply. This is often an indicator that a company thinks its stock is undervalued and that it has strength in cash flow. As of June 30, 2003, Hypercom had unrestricted cash of \$47.1 million, up from \$13.9 million for the same period last year.

### Lynk Certifies Omni 3750

Payment processor **Lynk Systems, Inc.** certified

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**VeriFone, Inc.**'s Omni 3750 point-of-sale terminal, which runs on VeriFone's Verix architecture. The Omni 3750 supports payment and value-added applications, including loyalty programs, gift cards and age verification.

### TPI Server Gets Thumbs-Up from Microsoft

**TPI Software, LLC's** product, SmartPayments for Mobile Devices Server, has earned a Microsoft Windows Mobile Software logo. TPI develops payment-processing software for retail and online merchants. The logo certification indicates that the software meets technical standards established for reliability and security on Microsoft's Windows Mobile platform.

### Visa Going after Chargebacks

**Visa U.S.A.** is making an effort to improve its process for resolving cardholder disputes, or chargebacks. The credit card association's initiative has been dubbed Re-Engineering Disputes (RED) and will target technology used at its member banks, such as replacing paper documents with electronic transmissions.

Visa's goal is to have most disputes resolved within one billing cycle.

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## PARTNERSHIPS

### Alliance Data Renews with Limited Too

**Alliance Data Systems Corp.** extended its contract with **Limited Too, Inc.** through 2010 and will continue to provide private-label credit card services.

The companies also signed a new multiyear agreement whereby Alliance Data will provide bankcard authorization services, including check verification and gift card authorization, for Limited Too's 537 stores in the U.S and Puerto Rico. Limited Too is a retailer for girls and young women.

### BPS Agents Can Charge Anywhere

**ISO Business Payment Systems (BPS)** will offer **Comstar Interactive Corp.'s** wireless CHARGE ANYwhere credit card processing solution through its network of sales representatives. BPS also will offer customers using **Lipman USA's** wireless Nurit 3010 and Nurit 8000 terminals the option to route transactions through Comstar's payment gateway using Cingular Wireless' Mobitex network or the Motient network, which then connect to National Processing Co.

### EXS to Use Ezic for Digital Processing

**Electronic Exchange Systems (EXS)** selected **Ezic, Inc.** to be its exclusive provider of digital payment processing services. With Ezic's technology, EXS customers can accept credit card and electronic check payments over the Internet directly from a Web site or by using an Internet-enabled PC.

### Two New Customers for Fifth Third

**Fifth Third Bank Processing Solutions** will process Visa, MasterCard, American Express and Discover credit card transactions at more than 150 of **Moran Industries, Inc.** franchise locations. Fifth Third also will process debit cards for **National Commerce Financial Corp.**

### FDC Wins First Outsourced Bankcard Contract

**First Data Corp.** signed a multiyear agreement with **China Everbright Bank** to provide the bank with credit card, merchant processing and business consulting services, including authorizations, account management and backroom services. First Data's VisionPLUS software will be used as the processing platform. China Everbright is China's first shareholder-owned commercial bank and has assets of more than US\$39.8 billion. The full-outsourcing deal between the two companies is the first of this type of agreement in China.

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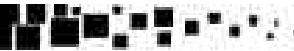
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## Hypercom Partners with South African Bank

**First National Bank, South Africa (FNB)**, a division of FirstRand Bank Ltd, plans to use **Hypercom Corp.**'s advanced networking technology and up to 5,000 of its EMV-certified ICE card payment terminals. In addition, Hypercom's EMV Specialist Consultancy Team and partner **Grintek Telecom** will help FNB develop a solution to migrate to EMV technology.

## Intellect Makes First U.S. Deal

Melbourne, Australia-based **Intellect International N.V.** will provide St. Louis-based **General Credit Forms, Inc. (GCF)** with 3,000 of its EMV-compliant PRESTO 210p point-of-sale products over the next 12 months. GCF is a manufacturer and distributor of POS products to merchants and the money order and petroleum industries in more than 150 countries on six continents.

## NPC Signs 3 New Customers

Retail nursery **Armstrong Garden Centers, Inc.** selected **National Processing Co. (NPC)** to handle authorization and settlement for all of its MasterCard, Visa and online (PIN-based) debit transactions and to support its gift

card program. **Electronic Network Systems, Inc. (ENS)** will use NPC's HealthePay payment platform for ACH payment processing, payment consolidation and electronic remittance advice reporting for health-care payers and providers.

And NPC will authorize and settle Visa and MasterCard transactions in the U.S. for LensCrafters, Sunglass Hut, Watch Station and Watch World (all **Luxottica Group** retail stores).

## UK Grocery Chain Picks VeriFone

In its effort to convert to PIN-based debit and to support EMV smart card transactions, the United Kingdom's **SPAR Supermarkets** chain will deploy **VeriFone, Inc.**'s SC 5000 PIN pads in 1,200 of its convenience stores. Approximately 2,800 units will be installed beginning September 2003.

## ACQUISITIONS

### Cardtronics Acquires More ATMs

Cardtronics acquired 1,704 ATMs from American Express Co. With this transaction, Cardtronics said it owns and/or manages more than 12,500 ATMs. In the past year, Cardtronics has acquired approximately 5,000 ATMs and related contracts.


### GCS Acquired by Processor

Credit card processor **First Horizon Merchant Services** purchased the existing stock of Orlando, Fla.-based **Global Card Services, Inc. (GCS)**, a provider of products and services that process transaction data for hospitality merchants. GCS will operate as a wholly owned subsidiary of First Horizon Merchant Services, Inc., a member of the First Tennessee National Corp. Terms of the transaction were not disclosed.

## APPOINTMENTS


### New Member to Join eFunds Board

**Richard J. Almeida** will join **eFunds Corp.**'s Board of Directors in October 2003. Almeida has more than 35 years' experience in financial services. He is a retired Chairman and CEO of Heller Financial, Inc. Before his 14-year tenure at Heller Financial, Almeida held a variety of management and banking positions with Citicorp and with Citibank. He currently serves on several boards, including Corn Products International, CARE USA, The Chicago Public Education Fund, The Old Masters Society of The Art Institute of Chicago, and High Jump. ■



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# Do You Think I'm Sexy? The Changing Face of Payment Terminals

By Michelle Graff

VeriFone, Inc.

Here's an exercise for you.

1. Look in your CD player (the actual player, not your archives). Are you still listening to Genesis, Duran Duran, Journey or "hair" bands from the '80s?
2. Look in your driveway. Do you see a used Ford Pinto parked there?
3. Look at the way you dress. Men, do you still turn up the collars on your polo shirts? Women, do you still wear "power" shoulder pads under everything from T-shirts to sweaters?
4. Look in the mirror. Have you aged at all in the past 15 years? (Exclude botox injections, please.) Can you still squeeze into the acid-washed jeans buried in the back of your closet? (We all know they're in there.)
5. Now look at your payment terminals. Are they little gray boxes with 16 keys or big black boxes with 35 keys? Can you recite the Pledge of Allegiance by the time the receipt prints?

**D**o you get my point? It's 2003, not 1987. Times have changed for you and times have changed for the point-of-sale. Let's take a look at the changing face of payment terminals and examine the features and functions designed to bring your business into the 21st century!

## If You've Seen One Terminal, You've Seen Them All

To many merchants, payment is perceived as a commodity business. Without close scrutiny, one POS terminal may look and perform pretty much like the other. In the end, this makes many merchants extremely price-sensitive; they will move their business to shave a few dollars off processing costs each month.

To overcome this commodity image, ISOs must be highly creative in how they position and promote their payment solutions. One of the most effective ways to differentiate your services from the competition and reduce price sensitivity is to deploy payment solutions that are good-looking, feature-rich, reliable, user-friendly and priced right.



## Let's Face It: Sex Sells

Smart salespeople everywhere – from the cosmetics industry to the liquor industry to the automobile industry – understand the importance of image. Pick up a Tranz 330 or a Hypercom T7. What comes to mind – form or function?

If you really want to offer a solution that helps you stand out from the competition, choose one that not only gets the job done but also looks good on a merchant's counter. It should have a small footprint; clean, smooth lines; and be free of cables and connectors.

It also can be helpful if there is some way to customize a terminal through the use of colorful overlays, perhaps ones that feature your company's logo.

The latest generation of payment terminals relies on an ergonomic, intuitive, ATM-style interface with a large graphical display and screen-addressable keys, delivering feature-rich functionality in an easy-to-use solution.

However, look carefully: A large display with buttons underneath may not be truly intuitive – have you ever seen an ATM designed like that?

To accurately call a terminal "ATM-style," it needs a large display to prompt the clerk through a transaction and buttons to the right of the screen to quickly make the proper selection.

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## Beauty is More than Skin Deep

Looks may open doors, but it's what inside that closes deals. Are your solutions smart enough to win – and keep – a merchant's business? Make sure to also consider the following features found "under the hood."

**Performance:** Choose a solution that is powerful, easy to use and reliable. Emerging requirements will demand the power of a 32-bit processor. Solutions featuring an 8-bit processing speed may not be able to keep up.

If you plan to offer value-added applications, make sure you've got plenty of memory. And if it's speed that counts, choose a terminal that supports SSL-protected IP communications to deliver secure transactions over open public networks (cable, DSL, CDMA, etc) in less than four seconds.

**Open Architecture:** You need a solution that supports an array of value-added applications from a variety of service providers. It should feature an open development environment, not a proprietary O/S, so you can be fast to market with the applications you choose.

And don't settle for a solution that requires painful recer-

tification to the basic payment application whenever you add or change a value-added application.

**Security:** You need a solution that securely protects your investment and keeps up with the security mandates, such as 3DES and PED. As you make the move to the multi-app generation, security becomes paramount in protecting your terminal investment.

**Reliability:** Finally, buy with confidence and choose a solution that's built to last so you can spend your time on the street, not on the support line. Interested in a future-proof investment? Look for a terminal that supports modular field upgrade options for advanced IP communications and smart card support.

Both you and this industry have come a long way in 20 years. It's a new generation, and if you want to line your pockets with enough cash to upgrade your CD collection and your wardrobe or buy that new BMW Z3, select a payment terminal designed to do the job right!

(And, really, you don't look as if you've aged at all.) ■

*Michelle Graff is Director of Global Marketing for VeriFone.*

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## Life of Riley Is Full of Credit

**T**he Tampa Bay area offers plenty of beautiful beaches, a moderate climate and a thriving payment processing industry. Fresh out of college with a degree in accounting and lured south away from the harsh winters of upstate New York, Sean Riley arrived in Tampa in 1976 and began his career in payment processing – he got a job as a chargeback clerk with Landmark Union Trust Bank.

"At that time, I never had a credit card, so I wasn't exactly sure how the credit card process worked, let alone the chargeback process," Riley said. "They handed me the book of rules from (at that time) Bank Americard and MasterCharge and said, 'Good luck.' "

The rest, as they say, is history.

Sean Riley has worked in the payment processing industry in the Tampa Bay area for 27 years – his career includes service at many other major payment companies, such as GEN SAR, Paymentech, L.P. and currently, Sterling Payment Technologies, LLC. He also had a seven-year stint in sales at LeRoux, Pitts and Associates



(LPA), a point-of-sale software development company founded by Wayne LeRoux.

From his entry-level position as a chargeback clerk, Riley moved into the accounting department at Landmark Bank (a division of Landmark Holding Co.) and ultimately was put in charge of operations for both credit card processing and merchant sales.

"I learned an awful lot in a very short period of time," he said.

Riley attributes his success to working with great people, and he says these are the people who helped "mold" him over the years. "I've been fortunate enough to work for good companies, but even better, for managers that let me work hard and thrive," he said. "They gave me direction and let me go do it."

At Landmark Bank, Riley helped run the credit card division, which experienced significant growth in the 1980s. When he started in 1976, about 25 people worked in the department. When Riley left, the department employed 250 people.

"He quickly caught the fever for credit card processing and has never gotten over it," said David Meyer, Senior Vice President of Merchant Acquiring Partnerships at Sterling Payment Technologies and longtime colleague of Riley. Meyer and Riley worked together at Landmark.

Meyer said Landmark was a fairly small bank then but scored many firsts under Riley's direction, such as becoming the first issuer of Visa Gold cards and Visa debit cards in the Southeast.

"We did some things in the credit card department that were highly unusual," Riley said. "We were kind of forward thinking."

With Riley in charge, the department instituted several incentive programs for its employees: rewarding data-entry people with cash for improving their speed and accuracy, implementing flextime for people handling chargebacks, even paying commissions to salespeople



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inside the bank, which was unusual, Riley said.

Landmark Bank also was an early innovator in technology under Riley's helm. The bank had moved from using manually keypunched paper sales drafts when he started there in 1976 to scanning systems to the first point-of-sale system in the Southeast that used electronic draft capture.

"Sean has been a pioneer in our industry from the get-go," said LeRoux, now General Manager of Paymentech Network Services. During Riley's tenure as Operations Manager at Landmark Bank, the bank processed the first debit card electronic transaction at the point-of-sale, LeRoux said.

LeRoux's company, LPA, built the point-of-sale software application Landmark used to hit this milestone.

From this partnership, Riley and LeRoux developed a solid working relationship, and after 11 years with the bank Riley joined LPA to do sales.

"Sales was a lot of fun; it was gratifying," said Riley. "With an operational background, I knew the issues that people were facing, so it was very easy for me to relate to why someone would want to install a POS system and manage it. Having both an operational background and a sales background really helped round out my career."

LPA sold POS systems all over the world – systems that were priced in the millions of dollars. Buyers included National Westminster Bank in London, First Hawaiian Bank, National Processing Co., Kentucky Fried Chicken and Electronic Data Systems Corp. (EDS). Many of these systems have

continued to evolve and get updated – many still are in existence.

Riley said the system that Citibank currently is using for EBT was first built by LPA. Also, the system LPA designed in 1984 for Paymentech served as the forerunner for the system that is still in operation today.

In 1989, LPA started a processing division called TransNet, which LeRoux later sold to Bipin Shah, founder of Transaction Processing Inc. In 1995, Shah changed the name of the company to GENSAR, which Paymentech later acquired. Riley worked for several years at GENSAR and then for six more years at Paymentech.

"I worked for a company that was very savvy, very service oriented and very technologically minded," Riley said.

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**"It takes so much effort to sign somebody, get them on the books and start processing transactions, and then they turn around and leave. One of the things we're trying to do is insulate ourselves from that constant turn of merchants. One of the ways to do that is to offer more products and services."**

— Sean Riley

Mary Dees, current ETA President and President and CEO of creditranz.com, worked with Riley at Paymentech. "He's just a great businessperson," she said. "He always thinks of the other person, is totally enjoyable to work with and can instill fun in any setting."

Riley said he left Paymentech when he recognized a great opportunity at a smaller, very focused, two-year-old company called Sterling Payment Technologies, LLC.

Sterling provides U.S. merchants with electronic payment solutions through its ISOs, independent sales agents and agent bank customers. Sterling offers credit, debit and EBT card processing; check guarantee and conversion; leasing; loyalty and gift card programs; and terminal deployment.

"Sterling is an ISO of ISOs," Riley said. "We are an ISO/processor, and we view our sales partners as our customers. We strive to add new products and services they can sell, to make their lives easier and to make it more profitable for all of us."

Sterling supplies ISOs with all of the elements related to merchant processing: product, service and technology. The company handles its own credit underwriting, new account entry, merchant help desk support, terminal deployment and risk management, and it creates its own merchant statements.

Riley said one of the challenges in the industry is the continual turnover of merchants – from one processor to another.

"It takes so much effort to sign somebody, get them on the books and start processing transactions, and then they turn around and leave," he said. "One of the things we're trying to do is insulate ourselves from that constant turn of merchants. One of the ways to do that is to offer more products and services."

One of the ways Sterling has differentiated itself is by offering insurance benefits to merchants (business owners and their families and employees and their families), such as major medical, pharmacy discount, vision, dental and life insurance, at a competitive price. Sterling originally offered this service to its sales partners and then was able to extend it to its merchant customers.

"I learned a long time ago at the bank that if a new customer walks in the door and you are able to sign them up for three services as opposed to only one checking account, the likelihood that they'll leave you is greatly diminished. It's the same in this industry," he said.

Riley said his greatest strengths are that he is dedicated and a hard worker, which he learned early on, from his first job at age 12 – a paper route – to working at a grocery store and paying his way through college, to working construction jobs right after college before moving to Tampa. "These things taught me valuable lessons in terms of work ethic," he said.

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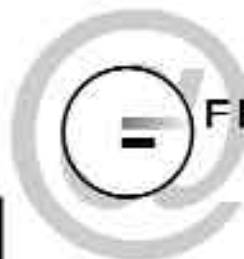
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Riley has demonstrated his dedication to the payment processing industry by serving on the Electronic Transactions Association's (ETA) Board of Directors for the last four years and also has served as Chair for the ETA's Technology Committee, which he said has been fun and rewarding.

Dees said Riley's contributions to the ETA's Technology Committee have made it one of the key committees in the organization and helped it keep pace with changes in technology in the marketplace. "He's worked for a bank, a processor, a front-end network, an acquirer and

now an ISO and has a lot of insight that he's contributed to the industry through the ETA," she said.

The ETA, Riley said, "is one of the best things we have going in this industry."

Although he may have "fallen into" this business, Riley said he couldn't have picked a better industry in which to build a career.

"There's something about this industry – the constant changing, the technology, the sharp people," he said. "It's the only thing I've ever done, and I wouldn't have it any other way." ■

## Retailers Scan New Problem with Self-Checkout – Fraud

**M**ajor retailers such as Wal-Mart and Home Depot have been using self-checkout lanes to speed up the checkout and payment process for their customers, but what these merchants didn't plan on is an increase in credit card fraud.

Self-checkout stations, such as NCR's FastLane, allow shoppers to scan, bag and pay for items all on their own. What's missing is the cashier. Stores have employees available to oversee the new lanes – either monitoring a screen at a main terminal or walking around answering questions, but there no longer is someone at each register not only to scan items and accept payments but also to check IDs and compare the signature on the credit card with the signature on the receipt.

Thieves are aware of this window of opportunity – thus, the increase in fraudulent transactions.

Although some retailers have installed surveillance cameras,

experts say they must do more to protect themselves from this type of fraud by using "traditional" methods of prevention, such as printing dual receipts at the point-of-sale and having a store employee check signatures and identification, as before.

The introduction of self-checkout technology began with grocery stores chains in the late 1990s; today, more and more retailers are adding it or testing it in their stores. Home Depot uses it in 500 of its 1,600 U.S. stores. A recent study conducted by IDC and sponsored by NCR, one of the leading suppliers of the technology, found that about 70% of consumers in five countries would be likely to use these systems.

A Visa USA Director said merchants have a responsibility to check IDs at the point-of-sale, the Sacramento Bee reported. Credit card issuers lose hundreds of millions of dollars every year from credit card fraud, and often these losses get passed on to cardholders and merchants in the form of higher fees. ■



## **Jury Orders Cardservice International, Humboldt Bank To Pay Escort Service \$3.15 Million**

**A** Los Angeles jury awarded the owners of the nation's largest escort service \$3,150,000 in damages in their suit against Cardservice International (CSI) and Humboldt Bank on August 8, 2003.

The award includes the refund of a \$150,000 security deposit, which the plaintiffs say was wrongly seized, and \$3 million in punitive damages.

The plaintiffs, Security Network, Inc. and Custom Tooling and Service, Inc., based in Fort Lauderdale, Fla., were processing more than \$200,000 a month in credit card charges, according to a statement made by their attorney, Howard King of Los Angeles.

The suit claims that CSI, a wholly owned subsidiary of First Data Corp., and Humboldt Bank terminated the agreement to process credit card transactions for the escort serv-

ice and then withheld the security deposit and merchant processing funds.

CSI and Humboldt had been processing transactions for the plaintiffs for five years. The jury found that the termination of the merchant contract had no legal justification; according to King, the punitive damages awarded reflected the "reprehensibility of the defendants' conduct in both withholding the merchant's funds and trying to justify same by alluding to the adult entertainment nature of the plaintiffs' business."

Humboldt Bank CFO Pat Rusnak said this particular merchant account had been included as part of CSI's portfolio and that CSI had full discretion to ask for a large security deposit because of the inherent risk in the type of processing involved. Rusnak also said that verdicts on several other counts in the suit were returned in favor of CSI and Humboldt.

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Credit card charges processed in a month by Security Network, Inc. and Custom Tooling and Service, Inc.

"The jury set aside everything else; they rejected the charges of breach of contract and fraud," Rusnak said. "We think the award of punitive damages is not consistent with the charges. We think the jury made a mistake.

"We will continue to see this through the post-trial motion process, and through the appeals process if necessary, until the matter is resolved to our satisfaction."

CSI spokesperson Samantha Smith said that while the company's policy is to not comment on ongoing, open court cases, CSI will be "definitely

appealing the verdict."

Netherlands native Arthur Vanmoor, owner of the Florida-based escort service, served time recently in the Broward County, Fla., jail on pandering charges; he has also been incarcerated by the Immigration and Naturalization Service for alleged irregularities on his green card application.

Vanmoor's complaint stated that Humboldt Bank and CSI cost him considerable income when they arbitrarily stopped processing transactions made by his customers. Both Humboldt Bank and CSI are

based in California.

According to a story in the Los Angeles Daily Journal, nearly seven hours of videotaped depositions showed Vanmoor wearing sunglasses and a "black sparkly blazer;" he denies allegations he is a pimp.

In that article, King said during the deposition, his client often sneered at the camera and frequently took the Fifth Amendment by holding up five fingers. Defense attorneys also caught Vanmoor in several lies. "Let me put it this way: I was surprised I won," King said in the story.

Humboldt Bank is one of several banks that sponsors CSI for processing Visa and MasterCard transactions, said Smith. ■

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## Future Shock? What Visa/MasterCard Settlement Means to Fast-Changing Industry

**Research Report:** Cashing In On Retail Payments:  
What the Future Holds for Financial Institutions  
**Authors:** June Felix and Vikram Lund,  
IBM Institute for Business Value  
**Date:** June 23, 2003  
**Size:** 19 pages  
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**T**his is the first serious research to report on the implications of the recent Visa/MasterCard settlement with Wal-Mart, et al. It is estimated that U.S. banks will lose at least \$1 billion in interchange revenue during the last five months of 2003 after the court-adjusted interchange rate took effect on August 1.

Bank of America has informed its investors that it expects its earnings to be \$60 million lower because of this settlement and another \$200 million lower in 2004. To put the importance of retail payments into perspective, over the last decade the top 25 banks have seen their payment-related revenues grow from 35 to 45 percent of total revenues.

How will banks seek to recover or replace the losses in bankcard revenues in the face of so many other changes going on in the payment field? IBM has factored this development along with other changes going on in our society to create a model that would forecast three different futures of the possible mix of revenues from payments for U.S. financial institutions over the next decade.

One of these forecasts targets the scenario where retailers can decide if they accept credit cards or signature debit. This White Paper summarizes the findings from this research.

### Executive Summary

Five major retail payment types are first defined in terms

of their revenue share and revenue drivers. Then the retail market variables at play are identified. Finally, assumptions are used to project different strategies financial institutions might deploy to capture more retail payment revenue share.

With so many variables in play, the projections are sure to be off the mark, but the logic described in this document is certainly worth the investment of time it takes to read it. The five major payment categories that this report first benchmarks are:

1. PIN Debit
2. Debit/Credit Transfers (ACH)
3. Signature Debit
4. Checks
5. Credit Cards

The report focuses on the changing revenue mix of retail/consumer payment revenues for the banking industry over the next decade.

Three different sets of assumptions are used to make these projections. The starting point is 2002, and \$86 billion of revenue is distributed across five payment categories. The relative importance of credit cards may be overstated but nevertheless is impressive:

PIN Debit .....	1.0%
ACH .....	0.4%
Signature Debit .....	2.9%
Checks .....	13.9%
Credit cards .....	81.8%

The credit card revenue mix is further broken down into Credit Card Fees (20%), Interchange income (20%) and Net Interest Margin on cardholder loans outstanding (60%).

Clearly, the major assumption behind this report's projections is how the consumer will evolve from paper checks toward various electronic alternatives. The "drivers" that the authors focus on to build their projections are:



• **Scenario 1:** Effect of EBPP Adoption: This is the extent to which consumers adopt Electronic Bill Payment and Presentment (EBPP) or substitute ACH transactions for the traditional check/stub mail-in model. While check volume declines rapidly in this model, revenue doesn't increase proportionally because of the banking industries' inability to price the EBPP service close to what is currently realized on each check processed (\$0.91).

• **Scenario 2:** Replacement of Paper Checks at POS: In this scenario, IBM likes the prospects for both debit and credit cards in replacing checks. This is based upon consumers' dependence on bankcards' convenience and cost. The report documents the fact that America exceeds all other nations in the value and number of credit card transactions.

They also see credit cards being threatened by the fact that they are a mature product selling into a saturated market with alternative credit/lower cost alternatives – such as second mortgage financing – undermining future growth. IBM doesn't like the prospects for the NACHA POP transaction version of check conversion. It believes that the missing ingredient of real-time guarantee associated with ACH transactions is a major handicap relative to ATM/PIN debit.

• **Scenario 3:** PIN Debit Transactions Leave Signature Debit Behind: IBM published this report before the Visa/MasterCard settlement was announced, but it inserted this scenario knowing that it represented a realistic possibility. In fact, this scenario may turn out to be the most realistic of any contained in the White Paper. This next 10-year projection results in an annual 4.7% revenue reduction relative to the current revenue mix of retail payments.

An outcome not welcomed by bankers is that by 2012 PIN-based debit accounts for 24 percent of the number of retail payment transactions but only 1.3% of payment revenues. This result is made more realistic by merchant resentment toward credit card and signature debit card pricing of 1.5% of transaction value; the question remains whether this is sufficient to prompt rewards and penalties for making these types of transactions.

Two emerging technologies are described toward the end of the report as possible "disrupters" to the current five payment options: stored-value and wireless payments. IBM sees these as major opportunities to generate incremental revenue streams to replace the erosion in revenue from electronic payments compared to paper checks.

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These are technologies that offer efficient means for banks to tap into the almost 800 billion coin and currency payments U.S. consumers transact each year. Not mentioned in the report, but a fact not to be forgotten, is that the Federal Reserve has made public a new cash services pricing schedule that will take effect on January 1, 2004.

These increased costs for accepting coin/currency and providing rolled coin and bundled currency are sure to be passed through to retailers. This in turn will make it easier to provide ROI justification for terminal upgrades that allow consumers to take change in the form of credits to their stored-value loyalty cards or key chain fobs/mobile phones that make parking meters and vending machines much easier devices to use.

The recommendations IBM leaves with its audience at the end of this report include:

1. To boost long-term profitability from checks, banks should invest in check truncation technology. The near-term passage of the Check 21 Act makes this recommendation even more compelling than the run-off in traditional retail payment revenues expected over the next decade projected by these researchers.

2. Banks should refrain from making large investments in EBPP until the market achieves critical mass. The problem with this recommendation is obvious. By the time the market achieves critical mass, banks won't have an opportunity to make large investments – the market will be owned by private-sector innovators.

3. RFID payment devices can provide banks entry into the low-value transaction space currently dominated by cash. This also is easier said than done. Prior experience around the world has PDA, cellular and phone companies using their mobile devices to accumulate small-value transactions and aggregate them into the monthly bill the consumer pays – hopefully by EBPP.

A very noticeable gap in this analysis of future retail payments for the next decade is a total disregard of smart cards. Maybe IBM knows something the bankcard organizations don't?

### Excerpts from this White Paper

- "However, use of debit/ credit (ACH) transfers at point-of-sale is largely unlikely to succeed. ACH transfers are not real-time transactions, unlike transactions on EFT and card networks and, hence, offer insufficient protection for retailers."

- "Credit card usage in the U.S. exceeds other nations by a significant margin in terms of both the value and number of transactions."

- "Credit card issuers face significant challenges. Growth in the U.S. is expected to slow over the next several years as substitutes threaten both the payment and credit components of credit card revenues."

- "Faced with slowing growth, card issuers and merchant banks are embracing three strategies: cost reductions through technology, international expansion and movement down market into low value transactions."

- "Lower value, frequent purchases currently dominated by cash represent a significant opportunity for credit card issuers as well – one worth as much as \$740 billion."

- "In the current landscape, issuing banks are tilting the playing field by launching loyalty programs rewarding cardholders for signature-based debit card transactions but not PIN-based transactions and instituting fees for PIN-based transactions."

- "However, stored value cards seem only to work in certain environments. They have seen success in environments that meet two specific criteria: the existence of a vendor serving a uniform need across a significant population and a base of high frequency, low value transactions."

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•"A 'wireless payment' is not a new type of payment, but a new front end for traditional payment types, and includes three type of players: customer, merchant and one or more intermediaries (financial services institution, wireless operator and solution provider)." 

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[www.unisys.com/eprise/main/admin/micro/doc/retail\\_payments\\_white\\_paper.pdf](http://www.unisys.com/eprise/main/admin/micro/doc/retail_payments_white_paper.pdf)

*New Directions in Retail Payments, White Paper, Unisys, Global Concepts and Talson Associates: Review of declining check volumes, debit card growth, channel competition from ACH and ATM networks, recurring payments and Electronic Bill Payment and Presentment, smart cards and RDIF contactless payment options are reviewed and survey findings are reported.*

[www.smartcardalliance.org/pdf/alliance\\_activities/Infrastructure\\_White\\_Paper.pdf](http://www.smartcardalliance.org/pdf/alliance_activities/Infrastructure_White_Paper.pdf)

*Smart Cards and the Retail Payments Infrastructure: Status, Drivers, and Directions, A Smart Card Alliance White Paper, October 2002: This trade association report identifies the drivers*

*within the issuing and acquiring payment processing infrastructure to deploy smart cards.*

[http://www.aciworldwide.com/pdfs/aci\\_trends\\_atm.pdf](http://www.aciworldwide.com/pdfs/aci_trends_atm.pdf)

*This is Not Your Father's ATM: Today's ATMs Are More Intelligent, More Personal and More Useful, by ACI Worldwide, Inc.*

[www.aciworldwide.com/pdfs/aci\\_trends\\_retailpay.pdf](http://www.aciworldwide.com/pdfs/aci_trends_retailpay.pdf)

*The Multi-Channel Challenge. Brief perspective on the converging retail payment components from a "behind the scenes" player in the payment processing world.*

[www.comixpedia.com/html/modules.php?op=modload&name=News&file=article&sid=669&mode=thread&order=0&thold=0&OSTNUKESID=42e22e745e1fe55aad3fa3fd33c7d621](http://www.comixpedia.com/html/modules.php?op=modload&name=News&file=article&sid=669&mode=thread&order=0&thold=0&OSTNUKESID=42e22e745e1fe55aad3fa3fd33c7d621)

*Features: Micropayments – An Issue of MacroProportions? A recent overview of the Internet perspective of micropayments – its history and future potential.*

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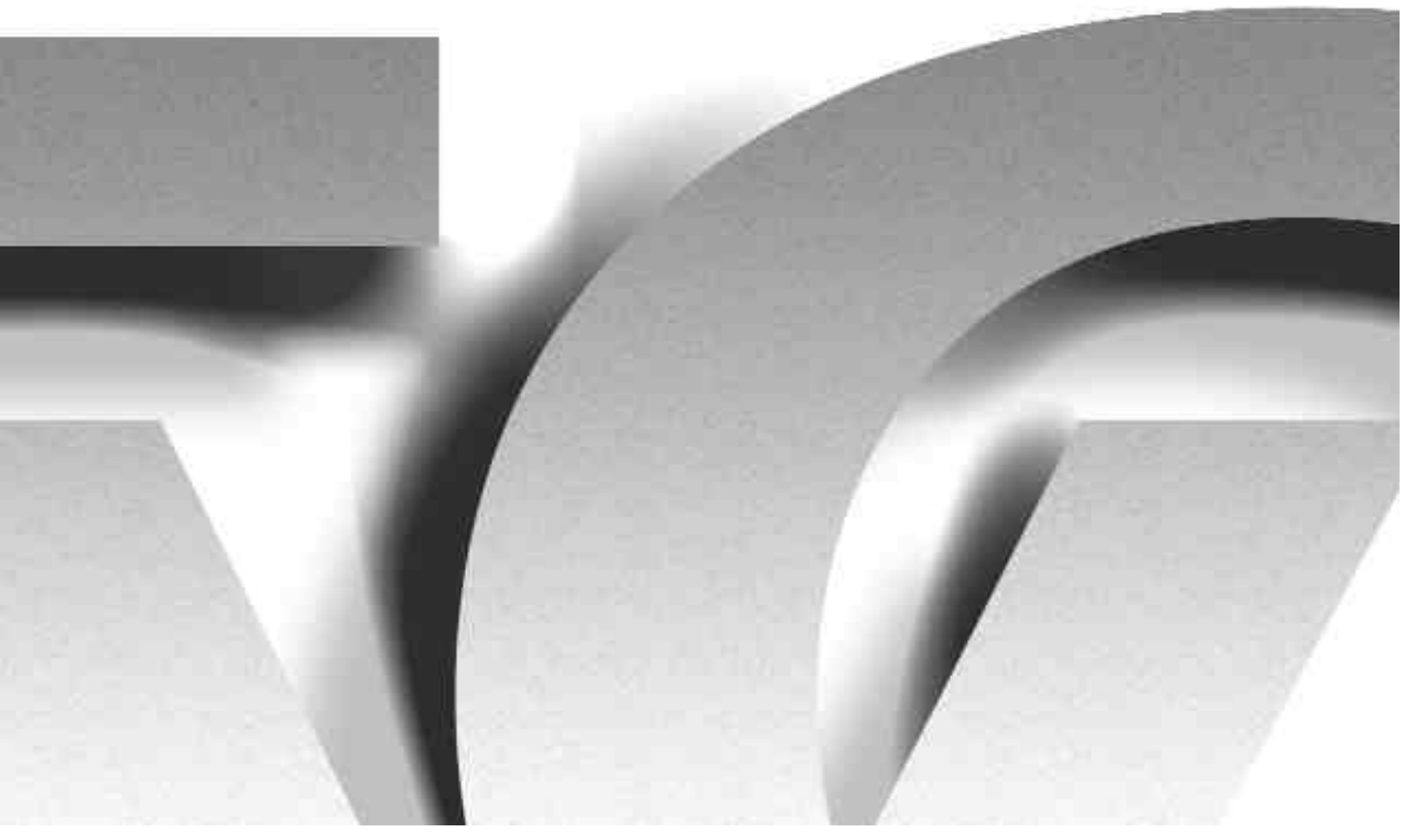
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## George Wallner Leaves Hypercom

**H**ypercom Corp. founder George Wallner has left Hypercom – he resigned from the Board of Directors and no longer will serve as a consultant to the company. Wallner also sold 7 million shares of his personal Hypercom stock.

Wallner founded Hypercom 25 years ago in Australia and relocated the company's headquarters to the U.S. in 1989. It has since become one of the leading point-of-sale terminal providers in the U.S.

In July 2003, Wallner stepped down from his position of Hypercom's Chairman of the Board to serve as Chief Strategist. In this role, he was responsible for the technology direction of the company, overseeing the Secure Systems and Transactions

Group (SST) – a division focused on integrating Hypercom's newest technologies, including biometrics, secure ID, age verification and transaction security products and systems.

Scott Tsujita, Vice President of Finance and Treasurer for Hypercom, said that Wallner left because he wanted to pursue other ventures and that his departure was a mutual decision between Wallner and the company.

In May, Hypercom recognized Wallner for his contributions to the industry by presenting him with the 2003 Payment Industry Luminary award.

Wallner and brother Paul (also a co-founder of Hypercom) each sold 7 million shares of their personal

holdings of Hypercom stock to institutional investors on August 14 and 15, 2003, respectively. (Hypercom will register these shares for resale.)

The brothers had been the primary shareholders of the company, holding about 35-40% of outstanding shares. The two also had sold a large amount of stock in July.

Following the sales, George Wallner has 3.845 million shares still invested in the company, and Paul Wallner has 400,000.

As part of the terms of his departure, George Wallner also signed a "non-competitive agreement" that prevents him from using proceeds from the sale of his stock to create a competing company or competing technologies during the next year.



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## Truncation from Page 1

tions like TeleCheck, a First Data Corp. company, and has been gaining renewed interest with the introduction of a new format that supports the conversion of remittance checks.

Nancy Grant, Senior Director for Electronic Check Services at NACHA, estimates that about one in 10 transactions flowing through the ACH in the second quarter of this year were retail check conversions.

These included point-of-purchase (POP) transactions – those most commonly associated with consumer check conversions – as well as transactions initiated via the Web or telephone, plus remittances and re-presented checks. (One of the earliest conversion formats, the re-presented check application gives banks and businesses a leg up on NSF collections.)

Added together, these transactions accounted for a little more than 214 million check conversions during the second quarter of this year. To put this into perspective, consider that, according to the Federal Reserve's data, consumers write about 1 billion checks a month to businesses and other parties.

Like ACH check conversion, check truncation comes in several flavors. One of the most popular is electronic check clearing, also known as ECP (for electronic check presentment). In the typical ECP arrangement, information from checks is digitized and sent electronically to paying banks in advance of the presentment of paper checks.

The time lag between electronic and paper presentment (more than a day) gives paying banks a jump start on processing, and if necessary, a chance to reject checks drawn against accounts with insufficient funds or other problems.

SVPCo, an ECP network owned by the nation's largest banks, clears about 5.2 million checks a day using this electronic clearing process, says Sue Goad of SVPCo's Electronic Clearing Services unit. SVPCo also supports check image exchange and archival.

Eight of its biggest bank owners (including Bank of America) have committed to begin converting to full truncation (i.e., image-based check exchange) in Q1 2004, according to Goad.

The Fed offers several iterations of ECP and truncation. Its full truncation service stops the paper flow on about 3 million items a day, says Dan Littman of the Federal Reserve Bank of Cleveland. The Fed's ECP-like services are used to clear about 11.2 million checks a day.

Several other organizations are similarly poised to leverage check imaging and archival capabilities in support of full-scale check truncation.

Among them: CheckClear LLC, an Oklahoma City firm that operates Endpoint Exchange (a national ECP and archival network that claims an enrollment in excess of 2,000 financial institutions), Viewpointe Archive Services (a private company with ownership stakes held by IBM, JP Morgan Chase & Co., B of A and a few other big banks) and Zions Bancorporation, which markets an ARC-truncation hybrid service called NetDeposit.

So what do these folks understand that, perhaps, NACHA and others pushing ACH check conversion may not? Risk, and the relative costs of risk.

### ACH Costs Less, But Risks Are Greater

On its face, it costs less to clear a transaction through the ACH than using check-clearing arrangements. The base price for an ACH item is about 25 cents. Check-clearing costs

can run as low as a few pennies to as much as \$1, or more, depending on methods used. (ECP hovers around the lower end of that price range.)

But the price differences can be deceiving. They don't take into account, for example, the fact that the ACH is a delayed settlement system. At best, there's a one-day lag between when a check is converted to an ACH transaction and when the merchant's bank receives good funds for the transaction.

With check truncation, the vast majority of a merchant's checks (those written on local banks) qualify for same-day availability. For a merchant concerned about bad checks, that one-day lag has huge implications.

Then there are the legal differences. ACH transactions are governed by the Fed's Regulation E and NACHA operating rules, each of which imposes consumer protection requirements. One such requirement: a 60-day return window for disputed transactions. Check law isn't nearly so generous; at most you get two days to return a check that can't be posted to the check writer's account.

There are other challenges, too. For example, NACHA rules say you can't convert certain types of checks – such as those drawn on corporate accounts and the so-called "courtesy checks" credit card issuers like to offer. Discerning those checks, however, can be difficult at the point-of-sale, at bill collection sites or on the Web or telephone. Rejects can be costly and will delay postings.

Also, checks contain a wealth of information that merchants, check writers and banks find useful, and much of that information gets lost in the ACH conversion. Truncation coupled with check imaging and Internet access means online access to images of cleared checks, 24/7/365.



(Check 21 encourages but does not mandate check truncation. And it creates a new, legal equivalent of a check, called an Image Replacement Document, or IRD, for banks and consumers that still need to see paper.)

From the merchants' perspective, the risk factors are paramount. Merchants write off billions of dollars a year in bad check losses. Once Check 21 becomes law, truncated checks will be accorded all of the legal advantages paper checks enjoy today plus the added advantages of faster posting and online access to check images.

"Banks ignore retailers' problems with write-offs," observes David Walker of ECCHO, an industry group that develops ECP rules and has been pushing for Check 21. "There's a real need there. With ECP we have a way to have a real impact

on the problem."

### So What about the ACH?

Now don't get me wrong, I'm not bashing the ACH. The ACH serves a legitimate purpose in the transition from paper to electronic payments. And there will, undoubtedly, be companies that prefer ACH conversion, for all or some check collections. But the ACH has limitations, and delayed settlement and return rules are just some of the problems.

When it comes to retail checks, my gut tells me that truncation will trump ACH conversion, provided Check 21 is signed into law.

It won't be the first time an ACH application was sidelined by marketplace dynamics. In the mid- to late 1980s, there was a move to support corporate electronic data interchange (EDI) transactions with ACH payment formats. Today, wire trans-

fers and checks continue to dominate this payment space. During Q2 2003 the primary ACH format for EDI transactions tallied just 6 million transactions, according to NACHA's data.

The ACH is an excellent system for some payment types – notably direct deposit of payroll, for which it was originally conceived, and direct debit for insurance and dues payments and items of that nature. Merchant-issued debit cards are another good application, though rarely used.

Merchant collections, though, are better served by checks, and things will only get better for merchants with the enactment of Check 21. ■

*Patti Murphy is Contributing Editor of The Green Sheet and President of Takoma Group. She can be reached at [patti@greensheet.com](mailto:patti@greensheet.com)*



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## Looking Back and Ahead

**W**hen The Green Sheet first asked me to write a column dedicated to the Merchant Level Salesperson, I jumped at the opportunity. From my years on the street, I've gained considerable knowledge and wanted to share it. I thought it would be a breeze. Well, I just finished my initial body of work – a six-part series on the essentials for success – and it was a challenge, but a rewarding one. These articles are a template for any MLS striving to achieve success in the highly competitive bankcard business and are now archived on The Green Sheet Web site under the header "Street Smarts."

The feedback I am getting on the column is incredible. I wouldn't be able to effectively write these columns without your input, and I hope you feel as if your voice is being heard. Here's a sampling of the comments I've received:

• "Nice job on the lead article in the Education section of The Green Sheet. I look forward to reading your articles."

– **Bob Carr, President/CEO, Heartland Payment Systems**

• "I've read your column for the past couple of issues. Again, I want to say, 'Hats off to you for believing in paying people well!' ...You've got the right attitude about building your business and keeping the people who are building it for you happy."

– **Chris Collins**

• "I enjoyed your first column and look forward to reading more in the future. Always nice to have the opportunity to learn from others with more experience and especially from someone as successful in this business as yourself."

– **MLS Forum User "Neil"**

• "I just wanted to say that your bankcard articles in The Green Sheet are great and full of a lot of useful info."

– **Chris West**

Before I introduce my next series, let me take a moment to recap what has become required reading for the savvy MLS:

### "The Key To Success"

The key to success in our business is securing an agreement that protects you from losing residual commission. This column reveals potential bombs hidden in many agreements and discusses critical points to look for when signing on the dotted line. It all starts with the contract.

### "Show Me the Money"

Continuing to build your portfolio on a solid foundation, this column showcases and rates the many different types of compensation programs that are available to the MLS. Two agents can write the same number of merchants per year and end up in completely different financial situations simply by how they choose to get compensated. Take the time to understand your options. It will pay dividends for years to come.

### "Partnerships For Success, Part 1"

We all rely on vendor partners. Because of this, effective vendor selection has never been more important. This column reveals the secret to smart vendor selection – three words: compatibility, service and price. Whether you are selecting equipment providers, leasing companies, gift card and loyalty programs or check services providers, it all centers around how compatible your vendors are with each other, the services they can provide you and your merchant, and the price of those services.

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**"Partnerships For Success, Part II"**

The most important partner relationship is your ISO or merchant account provider. For this article, I put out a Forum post asking Merchant Level Salespeople what the number one factor is in selecting an ISO partner. The answer was not "show me the money." It was refreshing to see that the overwhelming number of sales reps who chose "reputation and experience in the business." I couldn't agree more. This column explores all of the important issues to consider in this key selection.

**"Taking the Lead"**

OK, you've done your homework. You've got the right agreement. You've selected the right vendor partners. You have product knowledge with terminal equipment, software and bankcard services. But you're still not making a lot of money. The reason: You're not generating leads. Agents who generate solid leads are making the big bucks. They dedicate an ample amount of time to generating those leads. They realize how important lead generation is in this business. In this column we discuss ways to generate quality leads because every Merchant Level Salesperson must develop quality lead sources in order to be a success.

**"Coffee is for Closers"**

This column is the last of the six-part series covering all the bases that every Merchant Level Salesperson must understand to be successful in this phenomenal business of ours. Closing deals happens to be my favorite topic to write about, speak about and instruct. In my opinion, this is the one area that separates a professional from a hack. The professional salesperson has a game plan for every sales presentation whether it is in person or over the phone. The successful closer controls the process. The successful closer can take a prospect from cold to close in five easy steps. This column reveals the secret of those five steps.

I hope you have enjoyed this first series as much as I have enjoyed writing it. Now it's time to present a new series that is timely, relevant and continues to allow your voice to be heard. It is the many faces of MLS resources.

An MLS who can read is a dangerous thing. Think about all the resources available to the Merchant Level Salesperson. My next series of articles will showcase valuable resources, including acquirer associations, trade publications, educational institutions, conventions and conferences, industry associations and related industry Web sites.

We'll look at which resources are most effective as well as those that may not be worth your time and effort. Watch for my next post on the MLS Forum and/or send your comments on the subject of MLS resources to [streetsmarts@totalmerchantservices.com](mailto:streetsmarts@totalmerchantservices.com). As always, thank you for your continued support.

***"The wisest mind has something yet to learn."***

– George Santayana

I'll see you next time where the rubber meets the road.

*Ed Freedman is founder and President/CEO of Total Merchant Services, one of the fastest-growing credit card merchant account acquirers in the nation. Ed is the driving force behind all business development activity as well as the execution of Total Merchant Services' marketing plan, including recruiting and training independent sales offices and establishing strategic alliance partnerships with leading vendors, so that Total Merchant Services can provide its customers with the highest quality and most reliable services available.*

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## ▶▶ EDUCATION [ CONTINUED ]

# 3 Is a Magic Number

By Peter Scharnell

*Electronic Exchange Systems*

**T**he credit card processing industry has never been more competitive than it is today. Because of this extreme competition, it is vital that Merchant Level Salespeople establish a strong relationship with every merchant. By doing so, you will ensure that they will not jump to another processor that offers a cheaper rate.

One way to help retain your merchants is through value-added products. There is a good chance that if you supply them with three products and/or services, you will have a merchant for life.

It's becoming clear that the sales rep who takes the extra time to educate, train and, most important, listen to merchants' needs will have a much better chance of retaining them than the ISO that solely sells cheap rates and equip-

ment. There is a lot of money to be made in this business, but merchant retention is the name of the game.

Many merchants are not aware that there are other products that can be added to enhance their payment options. This is where the education factor comes into play.

By introducing your existing and potential merchants to the wide array of additional products and services that are available, you are taking your first step to building merchant retention, which is needed to create your residual stream of wealth. So let's look at some products available to your merchants today.

### Lead with Check Services

Instead of trying to close a credit card processing sale, why not lead with check services? Far too many salespeople try to lead with credit card processing, a service that most businesses either already have or are very aware of. By introducing them to check services such as conversion and guarantee, you stand a greater chance of talking to them about a new way to grow their business.

Merchants often were not made aware of check services by their credit card processing provider and, thus, you come across as a much more knowledgeable source of information. Many merchants simply don't know that you can accept checks in the same way you would accept credit cards.

This is a great way to market yourself as a merchant processing consultant rather than just another salesperson trying to close a deal. Leading with value-added products such as check services is a way for you to get your foot in the door and win over a merchant with your knowledge of our industry.

### Lead with Gift and Loyalty Programs

Many small to midsize merchants are either not aware of or think that they cannot afford gift and loyalty programs. By introducing them to affordable gift and loyalty card programs, you are educating them on additional possibilities to sell their products and services.

There are some great new gift and loyalty programs available today that allow merchants to offer programs like the ones they see at larger nationwide chains. Talk to them about starting a gift card program that can build brand awareness and increase customer frequency and loyalty.

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Once again, you can lead with a new product and, eventually, close them on their credit card services – getting closer to that magic number of three!

### Lead with Internet Services

Introducing your merchants to an easy and economical way to accept payments 24 hours a day, seven days a week via the Internet is another way to help educate and retain your merchants.

Let's face it, the Internet euphoria promised a lot and delivered very little for most merchants. However, now that the smoke has cleared from the great Internet crash, the Web is becoming a preferred way to purchase goods and services.

Now you can show your merchants a way to set up an e-commerce solution or even a simple virtual terminal gateway, where they can begin to drive their customers while their brick-and-mortar shop is closed.

There are some great solutions out there that make it easy to build a catalog and some powerful new payment gateways that help combat the potential for online fraud. Internet payment services are yet another value-added product to consider on your quest for three.

There are a lot of other potential value-added products and services that you can sell in addition to credit card processing, such as wireless, EBT, software solutions and ATMs, to name just a few. The key is to listen to your customers' needs and sell only what they need.

There is certainly potential to get carried away and sell products or services that really are not necessary for the merchant's business. The smarter ISO will take the time to truly evaluate the needs of the merchant and target the right mix of products and services.

As our industry matures and the technology improves, there will be other products to add to your arsenal. As a merchant consultant, it is important to stay up to speed on the latest products and services that your customers will need. ■

*Peter Scharnell is VP Marketing for Electronic Exchange Systems (EXS), a national provider of merchant processing solutions. Founded in 1991, EXS offers ISO partner programs, innovative pricing, a complete product line, monthly phone/web training, quarterly seminars and, most of all, credibility. For more information, please visit [www.exsprocessing.com](http://www.exsprocessing.com) or e-mail Peter at [peter.scharnell@exsprocessing.com](mailto:peter.scharnell@exsprocessing.com)*

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## NAOPP Continues to Make Progress

By Jared Isaacman

United Bank Card

**Y**ou may have forgotten about the National Association of Payment Professionals, but we are still here and ready to give you an update. For quite some time, the MLS/ISO community has been debating whether there's a place for an association that represents the "feet on the street."

There are hundreds of reasons for starting this association, but the common goal is to provide education, support and representation to sales reps. The growing demand for this association reached a climax a little less than a year ago, and NAOPP was born.

NAOPP President Steve Norell of US Merchant Services and several supporters conducted the kick-off meeting in February 2003 in Tampa, Fla. Those who attended came only with high expectations and nothing else. Their common interest was to focus on creating an association of Merchant Level Salespeople, ISOs, vendors and banks. An interim board of directors and officers was nominated and voted on.

The name of the association was suggested by Gary Martin, an MLS and industry professional, and was approved by the interim board. Amazing progress was made as ideas were formulated and timetables established. The momentum was high as the attendees departed. It was time to let the industry know that the National Association of Payment Professionals was filled with energy.

The first few months of the NAOPP's existence have been filled with discussion, formalities and preparation but, most important, progress. The bulk of the directors and board members gathered in Atlanta to finalize several key aspects of the NAOPP.

Greg Cohen generously arranged the time and meeting facilities at Global Payment Systems for this event. Andy

Pitts of Alpha Processing, the Chairman of the Bylaws Committee, came fully prepared with ratified bylaws, which were presented for finalization.

During the Atlanta meeting, the NAOPP board completed and voted on the bylaws, Web site and membership information – overall, a major chapter in the organization's development.

As we close in on the next gathering of NAOPP members, following the October 8-10, 2003 meeting of the Southeast Acquirers Association in Orlando, Fla., several more elements have been accomplished.

Henry Helgeson of Merchant Warehouse has completed the first phase to the official NAOPP Web site and created marketing materials that were handed out at the Midwest Acquirers Association meeting in July in Chicago.

Raymond Leonardi of Bridgeview Bank has established a merchant account, post office box and tax identification number for NAOPP in preparation for accepting membership applications. The Midwest Acquirers convention was the first public announcement of the progress and direction of the NAOPP since our first Tampa meeting.

The NAOPP directors and board members continue to exchange e-mails and phone calls with the intention of improving our industry and continuing to establish the organization.

The majority of the ISOs and MLSs have been struggling without any real representation, support or education in the payment processing industry. Despite what some may say, the ISOs and MLSs have a powerful voice and the NAOPP has heard it.

The coming months will bring further announcements, including membership opportunities and the next association meetings. For further NAOPP details and membership information, please visit [www.naopp.com](http://www.naopp.com). ■

**There are hundreds of reasons for starting this association, but the common goal is to provide education, support and representation to sales reps. The growing demand for this association reached a climax a little less than a year ago, and NAOPP was born. ... Despite what some may say, the ISOs and MLSs have a powerful voice and the NAOPP has heard it.**



## ▶▶ EDUCATION [ CONTINUED ]

# Two Settlements That Should Concern the MLS

By David H. Press

*Integrity Bankcard Consultants, Inc.*

**T**he announcement of two recent out-of-court settlements with federal agencies should be a warning to Merchant Level Salespeople to pay attention to what type of merchants they sign.

The PayPal settlement makes processing for offshore gambling even more dangerous. The Leasecomm settlement opens the risk of processing for "get-rich-quick schemes" and other merchants who sell worthless products that have been targeted by the FTC.

### PayPal, Inc. Pays \$10 Million for Aiding Illegal Offshore Gambling

The U.S. Department of Justice announced that PayPal, Inc. and eBay, Inc., its parent company, have entered into

a \$10 million settlement agreement to settle allegations that it aided in illegal offshore and online gambling activities.

The civil settlement agreement, filed in the Eastern District of Missouri, states that PayPal, Inc. illegally transmitted millions of dollars in funds derived from criminal offenses.

The uncontested allegations of the settlement agreement establish that PayPal's conduct occurred between approximately mid-June 2000 and November 2002, in the Eastern District of Missouri and elsewhere.

The settlement agreement states that PayPal illegally transmitted monies that violated the federal Wire Wager Act as well as various states' statutes prohibiting online gambling.



# PayPal

The \$10 million settlement represents an agreed-upon amount of forfeitable proceeds derived by PayPal from the processing of the illegal gambling transactions. The settlement agreement also provides that PayPal maintain a corporate compliance program for at least two years.

The agreement specifically stipulated that it "does not limit the federal government from pursuing any other entities or individuals responsible for these or any other alleged violations of federal law."

U.S. Attorney Raymond Gruender said, "Offshore sports books and online casino gambling operations which do business in the United States generally do so in violation of federal criminal laws. Therefore, we will continue to investigate and pursue such activity."

The statutory basis for the forfeiture rests upon allegations that PayPal had violated the USA Patriot Act and the Wire Wager Act by providing its services to offshore gambling sites in violation of Title 18, U.S. Code, Section 1960, which prohibits the transmission of funds "derived from a criminal offense."

By facilitating wagers, PayPal also was accused of violating Title 18, U.S. Code, Section 1084, which led to the \$10 million payment, defined by both parties as "forfeitable revenue" from processing the transactions.

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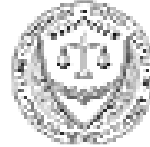
The use of the USA Patriot Act combined with state statutes prohibiting online gambling make the processing of online gambling a risk that should be too great for acquirers.

The combination of substantial chargeback exposure for non-payment of winnings and cardholder fraud along with the card association restrictions may signal the end of credit card processing for online gambling.

#### Leasecomm Settles with FTC for Deceptive Practices

Leasecomm, which was accused of using shady agents, deceptive contracts and false claims to target thousands of would-be entrepreneurs, will cancel \$24 million in judgments allegedly obtained through deception and will reform all business-opportunity financing contracts to settle charges filed by the FTC and an eight-state task force.

The law enforcement agencies charged that Leasecomm, a MicroFinancial, Inc. subsidiary, financed the purchase of business opportunities such as work-at-home operations using business opportunity sellers as its agents.



According to the FTC, the contracts contained provisions purporting to waive consumers' defenses and allowing Leasecomm the right to sue consumers in Massachusetts, where it is based, rather than where consumers lived and purchased the business opportunity.

The FTC alleged that most consumers could not afford to travel to Massachusetts to contest Leasecomm's charges and had default judgments entered against them in the Massachusetts court.

If they didn't pay, Leasecomm resorted to aggressive collection measures such as wage garnishment and property attachment to collect even though Leasecomm knew or should have known that its vendors used deceptive practices to sell their business ventures and promote the financing, according to the FTC.



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"Leasecomm's customers got a one-two punch," said Howard Beales, Director of the FTC's Bureau of Consumer Protection. "Leasecomm used sellers of highly suspect business opportunities to sell its financing and then claimed it had no responsibility for their deception.

"Companies that try to hide behind the fine print in contracts and lie to consumers about what they're were signing, whether directly or through agents, simply do not pass muster.

"Leasecomm knowingly participated in a scheme that used the 'get-rich-quick' allure of selling products on the Internet to take advantage of thousands of consumers who were ultimately forced into debt."

According to the FTC, the scheme worked as follows: Leasecomm financed business opportunities, including Internet Web malls, multilevel marketing programs, medical billing software, coupon clipping programs and similar, often worthless, get-rich-quick schemes sold by third-party vendors.

Consumers typically made little or no up-front payments but signed a contract, which Leasecomm called a lease, requiring payments ranging from \$3,000-4,000 over a

three- or four-year period.

While consumers thought the contracts covered

many items included as part of a business venture – training, Web site design, and consumer leads, for example – they didn't. They covered only one small part of the venture – a "virtual terminal," for example.

Leasecomm drafted its contracts to ensure that customers paid even when the vendors used misrepresentations or fraud, or when the products or services failed to perform as represented, according to the FTC complaint.

The FTC alleges that Leasecomm knows or should know that many of its vendors engage in deceptive practices to sell their business ventures.

According to the FTC, when consumers failed to pay, Leasecomm sued them. The FTC alleges that Leasecomm has sued more than 27,000 consumers in the past three years in Massachusetts courts.

As of January, the company had 2,200 suits pending.

2,200

Lawsuits pending against Leasecomm

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**Payment by credit cards plays a large part in the various scams that the FTC is targeting. This should be considered when signing up merchants with worthless products that have been under the FTC microscope, such as weight loss and vitamins, lower interest credit cards, college scholarships, make money working from home, travel packages, magazine subscriptions, etc.**

**Additional information:**

[www.ftc.gov/opa/2003/05/leasecomm.htm](http://www.ftc.gov/opa/2003/05/leasecomm.htm)

The similarity with the FTC complaint against Certified Merchant Services, Inc. in many respects, may raise the signal that ISOs could be hit if merchant processing agreements allow for suing merchants in foreign jurisdictions.

Remember, it is important to avoid FTC scrutiny in the first place by clearly disclosing all fee and expense information and not just burying them in fine print, and never orally misrepresenting fees and savings to merchants.

Another concern raised by the Leasecomm case is the responsibility placed on Leasecomm for the "worthless, get-rich-quick schemes sold by third-party vendors." Acquirers have been held responsible for knowingly processing for "scam" operators in the past, and it is likely that this may be the FTC's next step.

Payment by credit cards plays a large part in the various scams that the FTC is targeting. This should be considered when signing up merchants with worthless products that have been under the FTC microscope, such as weight loss and vitamins, lower interest credit cards, college scholarships, make money working from home, travel packages, magazine subscriptions, etc. ■

*David H. Press is Principal and President of Integrity Bankcard Consultants, Inc. Phone him at 630-637-4010, e-mail [dhp@integritybankcard.net](mailto:dhp@integritybankcard.net) or visit [www.integritybankcard.net](http://www.integritybankcard.net).*

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#### PRE Solutions

##### MLS contacts:

Angie Hunter

Director of Independent Channel

Phone: 866-946-9773, ext. 1

E-mail: [info@presolutions.com](mailto:info@presolutions.com)

Ron Betti

Director of Alternate Channels

Phone: 866-946-9773, ext. 2

E-mail: [info@presolutions.com](mailto:info@presolutions.com)

##### Company address:

520 Guthridge Court, Suite 100

Norcross, GA 30092

Phone: 866-WIN-W-PRE (946-9773)

Fax: 770-349-2399

Web site: [www.presolutions.com](http://www.presolutions.com)

##### MLS benefits:

- Retailers become "cash collection agencies" for cellular, direct telecom, Internet and other companies
- Multi-carrier vendor has partnerships with providers offering in-demand prepaid consumer products, including telecommunications and prepaid, Internet and stored-value cards
- Connects retailers and agents to prepaid and product providers and processed payments
- No inventory for agents or merchants to manage
- Income generated from commissions on sales of prepaid services and upgrading merchants' POS terminals/systems

The concept of paying in advance for goods and services used to elicit warnings of "buyer beware." Not anymore.

The prepaid market overall is growing by leaps and bounds. Analysts say the prepaid wireless phone industry alone will be worth \$4.4 billion by the end of 2003.

As impressive as that sounds, though, the sky is virtually the limit these days when it comes to things you can pay for before you use them.

Vendors with offerings in this market segment now include wireless and long-distance telecommunications companies, stored-value card issuers, Internet access providers and satellite TV services.

Many consumers choose to make purchases this way for a number of reasons. The idea of prepaid services appeals to people who might not qualify to open accounts dependent on good credit.

There also are a growing number of credit-laden people with limits and budgets stretched to the max, choosing to forgo monthly bills for the convenience of buying amounts of service time or specific dollar amounts on payment cards at a local retailer.

As the number and variety of providers in the prepaid market increases, it also is proving to be a good source of revenue for retailers and the sales agents who sell financial services and products.

For Merchant Level Salespeople, selling prepaid solutions means having a whole new dimension of products to pass along to merchants, who in turn also get a piece of the prepaid pie when they sell the services to their own customers. Many merchants are becoming "cash collection agencies" for a growing variety of prepaid product providers.

A company called PRE Solutions makes the connection between vendors, agents, retailers and consumers. It has formed partnerships with vendors, retail outlets and payment services providers to give customers access to a wide variety of products on a prepaid basis.

Those partnerships are put together and presented to merchants as a package, complete with signage, vendor logos and a multi-application terminal programmed to accept credit and debit payments and disburse the prepaid receipts.

As PRE Solutions' Senior Vice President of Sales, Les Cowie is responsible for developing the company's distribution channels. His enthusiasm for PRE Solutions' system is based in large part on the

**"A major part of our growth strategy is that we understand both small and large merchants. We also understand the world of independent contractors. Acquirers have been trying to give ISOs something else to offer merchants, to keep their foot in the door."**

— Les Cowie  
Senior Vice President of Sales  
PRE Solutions

sales opportunities it gives to the MLS as well as the simplicity and logic behind the program's benefits. Having built the "feet on the street" program in Florida for First Horizon before joining PRE Solutions, Cowie knows this channel well.

"A major part of our growth strategy is that we understand both small and large merchants. We also understand the world of independent contractors," Cowie said. "Acquirers have been trying to give ISOs something else to offer merchants, to keep their foot in the door."

PRE Solutions has a completely different approach to vendor partnerships and means of implementation. Other prepaid solutions depend on a supply of plastic cards that retailers sell to customers with set amounts of time or money on them. PRE Solutions has instead formulated a complete program for selling prepaid services that includes

everything a merchant needs.

The company offers real-time electronic delivery of PINs or cards that have no value until activated at the point-of-sale.

PRE Solutions has developed partnerships with dozens of service providers – such as AT&T Wireless, Long Distance and Worldnet Service; Verizon Wireless; T-Mobile; and Next Estate Communications – to sell prepaid services on specially programmed multi-application terminals or through software integrating PRE Solutions with the merchant's system.

The merchant location is able to accept payment from the customer and print a receipt that includes a PIN number and phone number for the desired vendor, which the customer uses to access the service that was just purchased.

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**"There is a lot of freedom in what the merchant can do with our program. They can choose which vendors they want to sell prepaid services for. We offer all national wireless services as well as many regional cellular providers. ... Stores also get free marketing materials. We provide a variety of sizes and styles of merchandising elements with logos, for large and small merchants."**

— Les Cowie

Cowie described his company's approach to prepaid as a win-win solution for all parties concerned – agents, merchants and customers: "This gives independent agents a real foot in the door. Once they're in, they have an opportunity to explain how the merchant can make money without purchasing any new inventory.

"It also gives the agent a chance to churn terminals. ISOs provide multi-application terminals to lease or buy. Our solutions are packaged in one terminal – credit, debit, prepaid, even gift cards."

While it's not necessary that merchants replace their old terminals, Cowie said most choose to upgrade. PRE Solutions transactions are run through Ingenico and VeriFone multi-application terminals.

The sales agent enjoys an upfront commission or recurring income from all of the transactions made on the terminal, and merchant retention is high. "Merchants don't jump when you're offering them value," he said.

Retailers also benefit from increased customer loyalty.

"For merchants, it means profitability, too," Cowie said. "There is a lot of freedom in what the merchant can do with our program. They can choose which vendors they want to sell prepaid services for. We offer all national wireless services as well as many regional cellular providers.

"Merchants collect the cash. Since the system works on a PIN delivery system with a printed receipt that cannot be used without the PIN entry, there is no need for a hard card and therefore no shrinkage (employee theft). We ACH their accounts weekly, leaving behind their commissions.

"Stores also get free marketing materials. We provide a variety of sizes and styles of merchandising elements with logos, for large and small merchants."

The materials are brightly colored, attention-grabbing and designed to fit in a number of spaces.

PRE Solutions also has calculated the profit potentials for merchants based on the transaction revenues and for sales reps, per month and depending on numbers of transactions. These revenue projections are charted and included with the introductory marketing materials for agents to use on sales calls.

Cowie explained that PRE Solutions adds to its offerings for prepaid services providers several times a year. Merchants receive notification by mail that new services are available, and software that enables the new solutions to be purchased is downloaded onto the terminal.

Consumers are discovering the prepaid market, too. PRE Solutions has terminals deployed in tens of thousands of retail locations throughout the U.S. and the Caribbean, Cowie said. Those locations include convenience, grocery and drug stores, check-cashing facilities and wireless services outlets.

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"Our first target is the 35% of people who can't get credit, or the unbanked. Prepaid cell time is an absolutely exploding market," he said. "All kinds of consumers – from parents with college-age kids to those with big credit card balances or without bank accounts – are buying prepaid phone time, using stored-value cards with limited secured amounts or paying for satellite TV reception."

**"Our first target is the 35% of people who can't get credit, or the unbanked. Prepaid cell time is an absolutely exploding market. All kinds of consumers – from parents with college-age kids to those with big credit card balances or without bank accounts – are buying prepaid phone time, using stored-value cards with limited secured amounts or paying for satellite TV reception."**

– Les Cowie

PRE Solutions' headquarters in Norcross, Ga., includes a fully integrated distribution center where terminal inventories and marketing materials are managed. Cowie said the company has about 150 employees, mostly in Georgia; an in-house sales staff handles the multi-lane, large-enterprise accounts, and a support team covers MLS and acquirer accounts.

A call center handles customer service calls 24/7/365 and in two languages. Cowie said someone is always available to answer questions on terminal usage, product sales and commission payments. Web reporting is another way both sales reps and merchants can track accounts and volume.

PRE Solutions prepaid services are proving to be a profit center for sales agents, creating new opportunities with more revenue, more door swings and more merchant loyalty. For those merchants, it means a cash flow and profit generator with no inventory, no spoilage, no investment, no shrinkage and no hassles. ■

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## NEW PRODUCTS ◀ ◀ ◀

## Tranax's Flexible Mini-Bank ATM

**Product: Mini-Bank 2150 and 2250 ATMs**

*Company: Tranax Technologies, Inc.*

**T**he Mini-Bank 2150 and 2250 ATM's are part of Tranax's 2000 sleek series of automated teller machines, which the company says are highly protected with the latest security requirements but also are affordable.

With the 2150 ATM, you can purchase the model "as is" or upgrade on a number of features to add additional functionality and opportunities for generating revenue.

The ATM comes with a 56K built-in modem, standard swipe reader, thermal printer and a 5.7-inch color LCD screen that can display up to 10 screens of advertisements. The keypad of 16 alphanumeric keys is compliant with the latest encrypted PIN pad (EPP) and Triple DES technologies.

It also has a large capacity single cassette that holds up to 2,000 notes and doles out cash at seven notes per second. The machine can house up to two 2,000-note cassettes (which is the Mini-Bank 2250) for dispensing multiple currency denominations, stamps and/or coupons.

The device also is equipped with a voice-guidance component, making it compliant with American Disabilities Act standards.

Buyers have the option to upgrade on the following: a TCP/IP LAN environment for even faster communication and connections; a 10.4-inch color screen for brighter, eye-catching ads; a Microsoft Windows XP operating system to support more advanced applications, such as prepaid products and ATM check cashing solutions; a Cencon 2000 lock; and a number of accessories.

Check out Tranax's Web site for a "mouse over" interactive guide offering enlarged images and clear descriptions of the Mini-Bank 2150's features. The page includes both a front (one-dimensional) and angled (two-dimensional) view of the ATM: [www.tranax.com/products/mb2150/index.shtml](http://www.tranax.com/products/mb2150/index.shtml)



### Tranax Technologies, Inc.

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## Check Image Police Are on Duty

**Product: Image Inspector software**

*Company: Carreker Corp.*

**B**anks and check services companies are anxiously awaiting the outcome of Check 21 legislation, a bill (Check Truncation Act of 2003) currently pending in Congress that would allow banks to exchange checks electronically (see Page 1 of this issue for more details). An important step in check truncation is check imaging, but if the image is not of high quality, the process fails.

Carreker Corp. has released a software application called Image Inspector (part of its Quality Assurance solution) that locates inferior check images and improves them, if possible, during the exchange of check images among banks and image archive providers.

The application uses image recognition technology and the company's own detection algorithms to analyze captured checks and then flag and repair suspicious items.

Image Inspector will mark images with the following defects: missing or unreadable payee lines and amounts, missing segments (for example, the back of a check), unreadable images, images that are too dark or too light, and bad tracking numbers.

The system works to repair faulty check images by tracking the location of the original document, allowing the operator to rescan the check on better equipment and rework the image to achieve the desired result.

Image Inspector has an open architecture, which allows it to inspect check images from any image capture system. It also runs on standard Windows operating systems.

This initial release of the product handles images that are captured via ATM's CPCS (Common Part Convergence Sublayer) or stored in Carreker's central image database.



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## WATER COOLER WISDOM

**"Art is making something out of  
nothing and selling it."**

– Frank Zappa

## INSPIRATION ◀◀◀

## Launching an Effective Ad Campaign

**T**his is the first in a series of articles intended to give designers and marketing teams a fresh perspective on producing advertising and collateral materials.

Printed advertisements have been around for thousands of years. Well before Gutenberg's press, posters and drawings were made by hand to influence the villagers. Granted, the earlier forms of display ads often were designed to either capture someone or convert them.

Consumers are bombarded with countless products and catch phrases, and it's safe to assume that 90% of them go in one eye and out the other. However, the well planned and designed ad will stick in their minds.

Unlike television and radio ads, a printed ad needs a visual hook and a certain something that makes people talk about it or absorb the message. One of the more important aspects of developing an ad campaign or a corporate image is consistency. Ads in a series are far more memorable than a scattershot of random concepts.

Brainstorm what makes your company or products/services unique or at least specifically memorable to the reader. Keep in mind that making false claims or inflating your company is a very bad idea – lawsuits and ruined reputations are real bummers. Ultimately, a successful campaign elicits a positive response and keeps your customers wondering what you will do next.

When you pick up a magazine, the best ads communicate directly to the audience they are targeting, and there is an underlying theme to each ad campaign. A key part in the process of developing an effective ad is researching the publication(s). It will give you a feel for what works, what the general tone is of the other ads and how your ad can fit in.

Equally important for fitting into your surroundings is an effective message and design for your ad. It is admirable to stand out and make a splash, but this also can work against you if the ad is offensive or tacky. Craft your

image so that your company will make a great impression in a three- to five-second window of opportunity. If the reader doesn't stop and notice your ad, you've missed your chance.

*Next: beginning the ad-design process.*



## Planning Is Your Business

**T**here is an old saying, "Proper Preparation Prevents Poor Performance." This is true for most things in life, including businesses. Do you have a business plan? Even if you are working for yourself and have no employees, you should have a plan. Your business plan is the guide and map for your future performance. How can you expect to get to where you want to be if you don't know where you are going?

Business plans can serve more than one function. If you plan to seek financing, the first thing anyone will want to see is your business plan. If you don't plan to seek funding, your plan can serve as a means to keep you on track and act as a measuring tool to see if you are meeting your expectations.



## shop.org

2003 Annual Summit

**Highlights:** The shop.org community includes executives from nationally recognized retail brands that have been online five or six years as well as those in their first or second year. The exclusive focus of shop.org is to provide a forum for retailing online executives to share information, lessons learned, new perspectives, insights and intelligence. Debate, learn, explore, network and share at the only industry summit where Internet and multichannel retail leaders and innovators gather to share ideas, experiences, perspectives and strategies. More than 500 leading online retailers are expected at this year's Annual Summit, which includes keynote addresses by two of the most prominent merchants in the country – Sears Chairman, President and CEO Alan Lacy and Dell Computer Chairman and CEO Michael Dell. Panel discussions will cover the future of online retailing and various aspects of shopper psychology. Marketing and merchandising sessions will touch on specific tools to improve business and customer loyalty. Networking opportunities will allow participants to develop relationships with their peers.

**When:** September 24-26, 2003

**Where:** Grand Hyatt New York, New York

**Registration Information:** Visit [www.shop.org/summit](http://www.shop.org/summit)

## Food Marketing Institute

2003 Retail Electronic Payment Systems Conference

**Highlights:** The Food Marketing Institute's membership includes 2,300 food retailers and wholesalers who operate 26,000 retail grocery and convenience stores in the United States with a combined annual sales volume of \$340 billion. Four separate business functions – information technology, operations, finance and marketing – are areas that overlap and affect electronic payment management. This conference will examine various forms of retail electronic payments and new technologies that are replacing the use of credit cards as well as the impact they have on the ways merchants conduct business. Emerging and innovative payment technologies, such as biometrics, RFID, stored-value cards, EBT encryption and an update on the Visa/MasterCard settlement, are among the topics to be covered. The cost of processing transactions with the new technologies, convenience for consumers, standardization and integration also will be discussed. Lloyd Constantine, lead counsel for the plaintiffs in the Visa/MasterCard lawsuit, will deliver the keynote address. Jerry Grundhofer, U.S. Bancorp Chairman, President and CEO, will be the keynote speaker at the conference's opening dinner.

**When:** October 13-15, 2003

**Where:** Hotel Monaco, Washington, D.C.

**Registration Information:** Visit [www.fmi.org](http://www.fmi.org). Phone 202-429-4519.

Preparing a business plan does not have to be difficult but will require some thought and preparation. There are many software packages and Web sites available to help you create your first business plan. Once created, the plan should be reviewed and updated at least every two years.

A good business plan will describe the business and include a mission statement. You also should include a competitive analysis, a marketing plan, staffing requirements and financial information. Consider where you want the business to be in one year, five years, 10 years.

If you do not seek financing and simply want to use the plan for review purposes, you can take an informal approach. However, if you will be using it to obtain funding for your business, you will need to follow a more formal format. Templates are widely available through the Internet.

Don't think that just because you have been in business for years, you don't need a business plan. You still should know where you are heading. Do you have plans to retire? How will you achieve those goals? How will the business expand? When you retire, will you sell the business or will you just close it down?

In the next few issues, we will discuss how to prepare a business plan will be discussed. We will take you through all of the steps to prepare your plan, including:

- Writing a mission statement
- Creating an honest competitive analysis
- Creating and implementing an effective marketing plan
- Creating financial statements
- Updating your plan
- Putting the pieces all together

Start by writing down your goals. Where do you want to go from here? In the next issue, you will learn how to take those goals and translate them into a mission statement.

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