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April 9, 2012 • Issue 12:04:01

Partnerships fuel portfolio growth

Merchant services is an industry built by individuals – entrepreneurs, each with his or her own novel approach to tapping into the vast opportunities for success that the market offers. Yet, as any business grows and matures, going it alone can become increasingly difficult. So ISOs and merchant level salespeople (MLSs) searching for new revenue opportunities turn to value-added services provided with the help of third parties.

Industry attorney Adam Atlas likens these to insurance policies. As an ISO or MLSs adds points of connection to merchants, it becomes more difficult for those merchants to leave for a better deal, Atlas said. However, an ISO or MLS with a dozen different solutions running at a merchant location doesn't want that merchant interacting with a dozen different providers. The ISO or MLS wants to be the sole focal point for customers. "There are so many more choices for merchants to make, so many things for them to worry about," said Mark Lorimer, Chief Marketing Officer at Capital Access Network Inc. "As their partnerships deepen, they bring increasing value to customers." And that's where ISOs and MLSs prove their worth as sources of expertise and good counsel.

"Establishing good partnerships is one of the most important things you can do in this business," said Dee Karawadra, founder and Chief Executive Officer of Cordova, Tenn.-based Impact PaySystem LLC. "If you don't have the right partnerships, there's no way you can make it in this business." ISOs and MLSs who do not have "two or three services available" are setting themselves up for increased attrition, said Marc Brown, President of Blue Star Loyalty of Tampa, Fla. Yet in most cases, in-house development just isn't practical.

Partnering works for all business sizes

ISOs and MLSs are not the only players in the merchant services space who need partners. Industry consultant Paul Martaus said an argument can be made that no one can operate in the merchant services arena without partners. MLSs partner with ISOs; most ISOs have partnerships with acquirers or processors, which also partner with network services providers. "Just about everyone buys some outside expertise," Martaus said. "Even a big organization like TSYS doesn't do everything itself. It uses debit [card payment] gateways."

Total System Services Inc. (TSYS), which has a long history of providing transaction processing services, partnered with First National Bank of Omaha in 2010. Then, in 2011, the company took over that bank-owned acquirer and purchased several small ISOs. Renamed TSYS Acquiring Solutions, the acquiring arm of the company has been growing at a healthy clip: 2011 revenues exceeded market expectations, with gross revenues up 6.8 percent over 2010, according to investor reports.

First Data Corp. is perhaps the most obvious example of the power of partnerships, especially bank partnerships, which account for almost half the card

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NotableQuote

Building and managing technology today is cheaper than ever, but anyone thinking of embarking on this journey needs guidance and a well-rounded, incremental approach toward building or buying gateway components.

See story on page 40



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Forum

Resources at the ready

A year or two ago, you had an article about a book someone wrote about being in the processing business, but I cannot remember the book or the author's name. I am interested in material that shares information on being a salesperson or ISO and what it entails. Hopefully, it will help me in my business growth efforts. I would appreciate any recommendations you might have.

Ray Talton
First Capital Payments

Ray,

You might be thinking of Bill Pirtle's book, "Navigating Through the Risks of Credit Card Processing." We reviewed it in The Green Sheet, June 28, 2010, issue 10:06:02. Here is a link to the review, which is titled "Guiding merchants toward honest processing partners": www.greensheet.com/emagazine.php?issue_number=100602&story_id=1975&search_string=Navigating%20through%20the%20risks%20of&search_string2=.

In addition, we have featured other books over the years that would be helpful in your research. I'll list several of them here:

- Good Selling™ and Good Selling™ 2, by Paul H. Green. Published by The Green Sheet Inc. and available free of charge in PDF format.
- How to Survive and Thrive in the Merchant Services Industry, by Marc J. Beauchamp and William Graham. Published by Performance Training Systems.
- What Every Business Should Know About Accepting Credit Cards, by Anthony Ogden. Published by BankCardLaw Media Corp.

You also might want to refer to the Encyclopedia of Terminology for the Acquiring Industry, which was written by Donna Embry and published by the Electronic Transactions Association. For a more extensive list of books we've reviewed, please visit our Book Reviews page at www.greensheet.com/publications.php?flag=book_reviews.

Editor



From GS Online's MLS Forum

The premier online network for payment pros

Recently, GS Online MLS Forum member **MICHAEL** asked other members whether they'd noticed an increased demand for mobile payments. Following are excerpts from the responses he received:

I am sure that it is more successful for some markets versus others, but overall and in my market, it is lukewarm at best.

– STEVE NORELL

I have to agree. There has been little demand to this point except in some niche markets. All of the new technology (chip, mobile, wallets) is in its infancy, and it will probably be years before it's commonplace.

– AMSPROCESSING

[F]or the type of merchants that I deal with, and want to deal with in the future, I don't see mobile as being a tool that will appeal to them or in any way make their lives easier. It's a nice bullet to have available should the need arise, but I don't personally chase merchants that would need it on any type of regular basis.

– JDECKARD

I have several coffee shops that have started using SquareUp for their \$2 transactions at 2.75 percent and no transaction fee. They are very happy with it.

– BANKCARDREP

We're seeing a huge and very noticeable increase in demand for mobile payments, and much of it is coming from our existing merchant base. More and more traditional businesses are adopting mobile payments to fit certain needs but not as their primary means of card acceptance. We set up at least one mobile payment account a day and often more. But we have our own app and platform, so we mostly give it away. We'd rather not have our merchants exposing themselves to an alternative provider like Square – even if it's only a small subset of their business. It's easier for them to download and use our app through their existing account than have two separate providers, especially since we can link their POS, terminal, mobile and web payments through a single gateway. But mobile is growing rapidly among traditional businesses, and reps should have a competitive solution.

– WWW.PAYMENTLOGISTICS.COM

To see all of the comments, please visit the MLS Forum thread titled, "Are you seeing the demand for mobile payments rise?"



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QSGS

A quick summary of key articles in this issue to help keep you up-to-date on the latest news and hot topics in the payments industry.

Cover Story

1

Partnerships fuel portfolio growth

The merchant services industry was built by fiercely independent entrepreneurs. Yet, as any business grows and matures, going it alone can become increasingly difficult. Thus, many ISOs and merchant level salespeople (MLSs) searching for new revenue opportunities turn to value-added services provided with the help of third parties.

News

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Consultancy faults PCI tokenization guidance

According to a webinar conducted by Securosis LLC, the PCI Security Standards Council's tokenization guidelines lack exactly that – guidance. In the webinar, Adrian Lane, Senior Security Strategist at Securosis, criticized the council's supplement as offering broad generalizations rather than practical advice on how to implement tokenization for data security.

News

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Direct Air's bankruptcy threatens JetPay

The bankruptcy of a charter air service and possible mismanagement of the charter's transaction escrow account are apparently threatening the solvency of ISO JetPay Merchant Services LLC. In court filings, JetPay said it could be bankrupt "in a matter of weeks" unless money in the escrow account of Southern Sky Air & Tours LLC is released to the processor.

News

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Heartland breach suit settled

A judge in the Southern District of Texas approved a settlement agreement in the consumer complaint brought against Heartland Payment Systems Inc. The settlement gives almost nothing to consumers and leaves three nonprofit organizations and plaintiffs' attorneys to divide settlement funds.

News

26

Coalition responds to retailers' debit rule complaint

A coalition of financial institution trade associations petitioned to file an amicus brief in a lawsuit brought by a group of retail associations. The retailers are protesting the Federal Reserve Board's rule implementing the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Feature

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Expo meets expectations in atmosphere of change

Prepaid Expo USA 2012, held recently in Las Vegas, featured keynote addresses on the interrelated topics of innovation and change; panel discussions on new technologies, new markets and new ways of marketing to consumers; and exhibit hall demonstrations of new products and services to reach unbanked consumers worldwide.

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View

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Choosing a partner for life

Everyone makes life-changing decisions, including the selection of personal and business partners. On a personal level, we hope we chose "the one" and live happily ever. The odds of that happening are about the same as winning the flip of a coin; however, the tips in this article can help increase your odds of choosing wisely in the business realm.

Education

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Street SmartsSM

Plotting a prosperous future

Street wisdom is necessary for navigating difficult situations, both during and after the sales process. We can read books, ask questions and even study the parameters of interchange, but if we don't have practical industry knowledge, healthy portfolios will elude us. Sharing wisdom can help us all make appropriate plans as we look at what lies ahead in the coming year.

View

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Technology, a catalyst for ISO growth

Merchant efforts to unify multichannel payments to provide value, as well as a payments industry shift from cost-based to value-based processing, are central factors transforming the industry. What true value will today's ISOs and MLSs need to deliver to remain viable going forward? And how can technology help them?

Education

64

Is it time for you to resell integrated payment systems?

While larger merchants have employed complex integrated payment systems for some time, most smaller merchants have been limited by electronic cash registers purchased off the shelf. Now, integrated payment solutions are more affordable, so ISOs and MLSs can offer smaller merchants sophisticated business intelligence. Are you in the game?



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Education

66

As a PCI compliance role model, how do you measure up?

It is essential for ISOs and MLSs to assess their abilities as experts in Payment Card Industry (PCI) Data Security Standard (DSS) compliance. To help payment professionals evaluate how they measure up as PCI consultants for merchants, this article discusses the latest research findings on Level 4 merchants and the acquiring businesses that serve them.

Education

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No more contract-signing hurdle

MLSs routinely hear prospective merchant customers say they don't want to sign long-term contracts – or any contracts at all. And the last thing a good salesperson wants is to lose sales because he or she cannot waive contracts or provide them for shorter terms. This article proposes a solution that could result in gaining 48 months of a merchant's business instead of losing it all.

Education

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Use new card fees to build merchant rapport

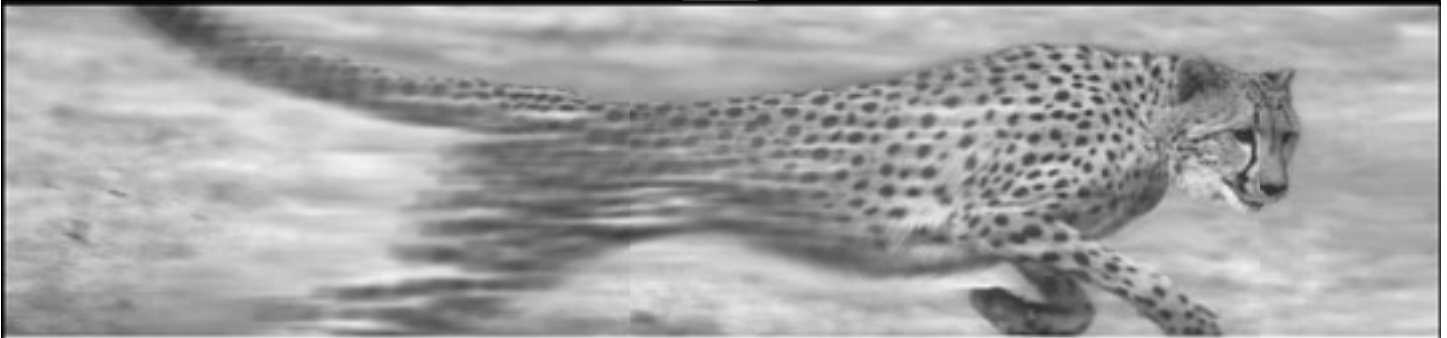
The Durbin Amendment was kind to merchants and unkind to issuing banks, which experienced tremendous loss of revenue. Apparently, card brands now intend to recoup income with new fees, in particular Visa Inc.'s Fixed Acquirer Network Fee. However, proactive payment pros can use this to open up lines of communication to strengthen their relationships with merchants.

Inspiration

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Don't let hot leads slip away

Do you have a follow-up plan for handling tradeshow sales leads? If your answer is no, you're not alone. Experts have estimated that up to 80 percent of all tradeshow leads are not followed up. The six tips offered in this article can help you devise an effective follow-up system that will make full use of tradeshow leads and net more sales.



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IndustryUpdate

NEWS

Vanderhoof makes the NFC case before Congress

At a Senate subcommittee hearing, Smart Card Alliance Executive Director **Randy Vanderhoof** provided historical perspective on why near field communication (NFC) technology-enabled mobile contactless payments are poised to transform the financial services industry.

At the March 22, 2012, hearing before the Committee on Financial Services' Subcommittee on Financial Institutions and Consumer Credit, Vanderhoof summarized the 20-year history of smart card technology in protecting payment accounts and mobile phone subscribers. He also detailed the potential future impact of mobile NFC contactless payments.

"The future of money, as this hearing is entitled, is being positively impacted by mobile technology," he said. "The changes in financial services addressed at this hearing are being well managed and securely protected by the smart card elements that integrate NFC technology into mobile devices, and the collective knowledge and resources of the financial and mobile industries."

Vanderhoof added that NFC contactless mobile payments technology is grounded in global standards and industry best practices that strongly position NFC to deliver consumer value, protection and reliability. Vanderhoof's testimony is available at www.smartcardalliance.org/pages/activities-congressional-testimony-20120312.

TSYS recognized for ethics, launches people-centered initiative

Total Systems Services Inc. (TSYS) was named by business think tank Ethisphere Institute as among the 2012 World's Most Ethical Companies. The recognition came at a dinner in New York City, March 15, 2012.

TSYS was honored for starting and nurturing progressive and conscientious business practices and initiatives. To qualify for the honor, TSYS' code of ethics, litigation and regulatory history, investment in innovation and sustainable business practices, and promotion of corporate citizenship were examined. Nominations from senior executives, industry peers, suppliers and customers were also reviewed.

Alex Brigham, Executive Director of the Ethisphere Institute, said, "A strong ethical foundation is a competitive advantage, and TSYS recognizes the important role corporate responsibility plays in improving its bottom line."

In addition, TSYS launched a new brand initiative highlighting the company's mission. The initiative, called People-Centered Payments, is meant to reflect TSYS' intention "to improve the lives and businesses of people." The processor said refocusing on the needs of clients and customers will give it a competitive advantage.

U.S. warming to EMV chip adoption

According to a joint survey by **Aurimedia Consulting Group Inc.** and U.K.-based financial services consultancy **Savantor**, evidence is growing that the adoption

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HEADLINES
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- The **Euromonitor International Ltd.** report *Toys and Games: Trends, Developments and Prospects* projected the North America and the Asia-Pacific regions will generate 28 percent of global sales by 2015, which in 2010 stood at \$132.5 billion.
- The **National Retail Federation** estimated U.S. consumers will spend an average \$145.28 on apparel, candy, food and decorations during the 2012 Easter holiday, for a combined total of \$16.8 billion.
- According to **Research and Markets'** *Global Retail Sporting Goods Industry Analysis 2012-2017: Industry Trends, Profit and Forecast Analysis*, athletic apparel, footwear and equipment will account for \$266 billion in sales by 2017, at a compound annual growth rate of 4 percent.

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beyond the transaction.

Industry Update

of Europay/MasterCard/Visa (EMV) chip technology is beginning to take hold in the United States. The findings in *EMV Chip in the US – An Informal Survey* include:

- Migration to EMV chip is now inevitable but may not accelerate until card brand mandated deadlines approach.
- EMV chip adoption is not seen as a high-priority, long-term strategic issue for many businesses.
- Chip with signature verification is expected to be deployed, rather than chip and PIN.
- Mobile NFC and other emerging payment models increase the uncertainty over EMV adoption.
- Large retailers are the main drivers of EMV migration, with many other stakeholders adopting a wait-and-see attitude.
- The EMV movement in the United States lacks central coordination and leadership.

Western Union launches WU Pay

Global money transfer specialist **Western Union Holdings Inc.** introduced a new electronic payment platform called WU Pay. The platform facilitates online shopping in the United States by offering customers the ability to make bill payments online or in person.

The platform allows shoppers to pay for online purchases from existing bank accounts or in cash at Western Union locations. The service is available as a payment option through brand-name websites that include Sears Brands LLC, Kmart (a Sears company), Buy.com Inc., TigerDirect Inc. and Redcats USA Inc.

Through WU Pay, customers can also purchase virtual gift cards from over 60 brands, including Amazon.com Inc., J.C. Penney Corp. Inc., The Home Depot U.S.A. Inc., Dell Inc. and American Airlines Inc. WU Pay is the outgrowth of Western Union's purchase of the eBillme platform in October 2011.

Veracity secures substantial private equity investment

Atlanta-based payment processing services provider **Veracity Payment Solutions Inc.** secured an \$80 million commitment from Boston-based **Great Hill Partners**, a private equity firm. A portion of the committed funds was used to buy out an existing investor; the majority of the investment will be used to fund Veracity's U.S. and European acquisition strategy.

Founded in 2007, Veracity offers credit card, debit card and automated clearing house processing solutions primarily to small and midsize businesses (SMBs). Veracity targets community banks, trade associations and affinity partners with the goal of providing diverse payment

and billing solutions to SMBs through a combination of organic activities and acquisitions.

Veracity stated it has completed five acquisitions and currently processes for more than 12,000 merchants across numerous industries, leveraging its relationships with 180 partners.

ANNOUNCEMENTS

Discover expands into Ecuador

Discover Financial Services now offers Discover cards in Ecuador through a franchise agreement with its Diners Club Ecuador subsidiary. This is the first time Discover cards are available outside the United States.

DCE enjoys a 40 percent market share in Ecuador; the introduction of the Discover card in that country is expected to further grow market share.

FleetCor renews with The Pantry

Fuel card provider **FleetCor Technologies Inc.** and convenience store operator **The Pantry Inc.** renewed a 10-year old agreement for FleetCor to provide processing to The Pantry's convenience store chain Kangaroo Express in the Southeastern United States.

Gemalto wins Juniper mobile awards

Digital security firm **Gemalto NV** won two Future Mobile Awards from Juniper Research Ltd. in the NFC and mobile ticketing categories.

One award went to Gemalto for its Universal Integrated Circuit Card deployment and Trusted Service Management for NFC technology. Gemalto won the second award for its contactless services geared toward the mass transit sector.

Heartland named one of best places to work

Payment processor **Heartland Payment Systems Inc.** was named one of the 2012 Best Places to Work in Indiana. The best places to work program identifies and recognizes Indiana's best employers using employer records and employee surveys. Heartland employs 800 people, while servicing more than 250,000 U.S. merchants.

Ingenico goes contactless in Canary Islands

POS device manufacturer **Ingenico S.A.** reported that it deployed the first wireless POS terminals in the Canary Islands. The installation via financial services provider Cajasiete will allow SINcontacto card users to make contactless proximity payments at more than 500 stores throughout the islands, Ingenico said.

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Industry Update

Alpha Card CEO wins award

Lazaros Kalemis, founder and Chief Executive Officer of Alpha Card Services, won the 2012 *Philadelphia Business Journal's* "40 under 40" award.

The award was given by the magazine for "exceptional leadership qualities, positive contributions to the business community, generous philanthropy and significant accomplishments throughout his professional career."

Meracord offers payment processing

Third-party contract payment service provider Meracord LLC reported it now accepts credit and debit card payments from approved businesses.

The additional payment option lets businesses quickly close deals and simultaneously provides clients with payment options for the services they receive, Meracord said.

Suze Orman to keynote Money2020 Expo

Celebrity financial guru Suze Orman will deliver a keynote address at Money2020 Expo. The author and cable television host will share perspectives on the financial affairs of mainstream U.S. consumers, address the

evolution of credit scoring and discuss how innovative financial products have the potential to change the way consumers manage money.

Money2020 LLC's inaugural expo will focus on emerging payments and financial services and encourage new, innovative partnerships. It will be held Oct. 22 to 24, 2012, at the ARIA Resort & Casino in Las Vegas. The expo is expected to draw over 1,500 attendees.

PaymentOne now PayOne

PaymentOne renamed itself PayOne Corp. PayOne now boasts new branding, a new website and the launch of its One-Click mobile payment platform. PayOne said it is connected to over 1,000 mobile telecommunication providers worldwide.

TNS introduces TNSPay Mobile

U.K. data communications and interoperability solutions provider Transaction Network Services Ltd. unveiled a new payment gateway and terminal management solution for payment processors and ISOs to support merchant POS solutions.

TNSPay Mobile is based on the Payment Card Industry (PCI) Data Security Standard (DSS)- certified TNS wireless payment gateway platform.

US Dataworks unveils partner program

Sugarland, Texas-based payment processor US Dataworks Inc. launched its Channel Partner program. The program is designed to build a network of partners to sell, service and extend the company's Clearingworks payment platform. US Dataworks is looking for partners that share its core values of innovation and "white glove" support and service.

VeriFone's \$10 billion gateway

VeriFone Inc. said its PAYware Connect gateway is the first in the mobile payments industry to exceed an annual transaction volume rate of \$10 billion.

The PAYware Connect gateway is a cloud-based, PCI-compliant solution that includes end-to-end encryption as part of its security package, which also provides reporting, analytics and reduced PCI DSS scope.

Virtual Piggy to power Super Sproutz

Youth payment specialist Virtual Piggy Inc. inked a deal to provide children's education and entertainment media company Super Sproutz LLC with an online checkout solution designed for children.

Virtual Piggy's service allows children to enter usernames and passwords and, if purchases match the parameters set up by parents, payments are processed

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Industry Update

without children having to enter additional personal information.

Super Sprowitz sells educational multimedia products, such as plush toys, books, video games and mobile applications. Virtual Piggy is compliant with the Children's Online Privacy Protection Act.

PARTNERSHIPS

Adobe, PayPal team for order forms

Software developer **Adobe Systems Inc.** teamed with **PayPal** to offer Adobe FormsCentral, which allows PayPal Premier or Business account customers to accept payments, donations and online order forms.

BilltoMobile partners with Discover

Discover will offer mobile carrier billing to online merchants via direct-to-carrier mobile payment company **BilltoMobile**, a subsidiary of online payment solutions company Danal Inc.

Fiserv, MoneyGram expand Popmoney

Processor **Fiserv Inc.** reached an agreement with money transfer company **MoneyGram International Inc.** to add MoneyGram's money transfer services to Fiserv's Popmoney person-to-person payment solution.

PayLeap, TSYS align

TSYS certified payment gateway provider **PayLeap** to run on the processor's payment platform. **TSYS** said **PayLeap** is now boarding merchants on the **TSYS** Partner Reseller Program. The agreement allows PayLeap ISOs and agents to offer the PayLeap gateway to merchants, with payments processed via **TSYS**.

Shift4 joins Microsoft network

Payment gateway provider **Shift4 Corp.** joined **Microsoft Corp.**'s Partner Network and is now a Microsoft Dynamics ERP Partner. Shift4 will integrate its tokenization solution with Microsoft's risk management services.

ACQUISITIONS

Clairmail acquired by Monitise

Mobile technology and services company **Monitise PLC** acquired mobile banking and payment provider **Clairmail Inc.** for \$173 million. Together, the companies process more than \$10 billion a week in mobile payments on an annualized basis, Monitise said.

FeeFighters purchased by Groupon

Internet daily deal coupon company **Groupon Inc.** purchased payment processing comparison shopping website **FeeFighters**, a subsidiary of Transparent Financial Services Inc. Terms of the deal were not disclosed.

Symantec acquires Nukona

Security and systems management solutions company **Symantec Corp.** agreed to purchase mobile application management company **Nukona Inc.**

The acquisition expands Symantec's enterprise mobility portfolio to include a cross-platform mobile application protection solution to help companies protect corporate data and applications in both company-owned and personal devices.

APPOINTMENTS

Goodwin new CO-OP sales manager

Rob Goodwin became the new Regional Sales Manager at CO-OP Financial Services. Goodwin formerly sold CO-OP and Fidelity National Information Services Inc. payment solutions for Covera Card Solutions.

In his new job, Goodwin is responsible for market development and services in seven Northeast states.

MoneyGram names new CFO, EVP

MoneyGram promoted **W. Alexander "Alex" Holmes** to the position of Executive Vice President and Chief Financial Officer. Formerly MoneyGram's Senior Vice President for Corporate Strategy, Holmes will now be tasked with managing the company's finances and developing its investment strategy.

In addition, **Carl-Olav Scheible** became the company's new Executive Vice President for Europe, Africa and Emerging Channels. Scheible comes from PayPal where he was Managing Director for the U.K. At MoneyGram he is responsible for business development in Europe and Africa.

Heartland promotes Lawler

Heartland promoted **Michael Lawler** to Chief of Corporate Development. Before joining Heartland, Lawler was a Senior Vice President at Tier Technologies Inc. In his new position Lawler is responsible for finding, developing and closing acquisitions.

He will also be responsible for Heartland School Solutions and the development and execution of payment portal initiatives. ■

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ISO/MSP of Wells Fargo bank, N.A., Walnut Creek, CA

Direct Air's bankruptcy threatens JetPay

The bankruptcy of a charter air service and the possible mismanagement of the charter's transaction escrow account are apparently threatening the solvency of Bingham Farms, Mich.-based ISO JetPay Merchant Services LLC. According to court filings, JetPay said it could be bankrupt "in a matter of weeks" unless money in the transaction escrow account of Southern Sky Air & Tours LLC (dba Direct Air) is released to the processor.

JetPay's March 21, 2012, filing in the United States Bankruptcy Court District of Massachusetts Central Division in Worcester, Mass., followed Direct Air filing for Chapter 11 bankruptcy protection on March 15. After reassessing its situation, Direct Air re-filed for Chapter 7 bankruptcy on March 23. Chapter 7 requires the company to cease operations, sell its assets and distribute its proceeds to creditors.

According to the Direct Air bankruptcy petition, Avondale Aviation LLC bought a majority interest in Direct Air in September 2011, but "rising fuel costs and other operating expenses [soon] pushed the carrier into a severe operating loss position."

Direct Air told the court that the original partners in the charter air service – Kay Ellison, Marshall Ellison and Judy Tull – "without warning, and without notice, resigned" on March 12. Direct Air said it immediately appointed a new management team but the next day found it did not have enough money to continue operating; Direct Air then cancelled all of its flights and filed for bankruptcy.

Direct Air noted that the flight cancellations came at the peak of the spring break travel season – traditionally a busy time of year for the charter company.

JetPay on the hook

JetPay, Direct Air's payment processor, said in a court filing it is obligated to repay customers for cancelled flights. The ISO said those reimbursements may rise to \$20 million – an amount JetPay believes could put it out of business if funds in the transaction escrow account are not released to reimburse customers who paid for flights with credit cards.

Direct Air objected to a JetPay motion to release the escrow funds and reported a shortfall in the escrow account. Only about \$1 million remains in the account, according to Direct Air – far less than the amount JetPay said it has already reimbursed Direct Air customers since the bankruptcy was filed and the escrow account closed.

On March 21, JetPay filed an emergency motion for relief with the bankruptcy court, asking the court to release escrow money held by Valley National Bank of Wayne, N.J. The petition for separation of the escrow account from the bankruptcy funds was joined by the United States Department of Transportation, American Express Co. and JetPay's acquiring bank, Merrick Bank of Draper, Utah. JetPay also filed an affidavit from its Chief Operating Officer, David Chester, in support of the motion.

In the motion, Chester said when a customer purchased a flight, JetPay funded the Valley National escrow account for the purchase amount and assumed responsibility for collecting that payment. Only when Direct Air certified that a charter flight was completed did Merrick Bank release the money to Direct Air. JetPay would then send a draft to Valley National for reimbursement.

Chester said it normally was reimbursed from the escrow account. However, after the bankruptcy filing, Valley National refused JetPay's reimbursement requests while JetPay's own bank account with Merrick "is being drained daily by chargeback and refund claims without reimbursement," the ISO said.

Adding even more pressure to JetPay's finances, the Transportation Department sent out notices telling consumers to seek reimbursement for cancelled flights from their credit card companies. JetPay said between March 10 and March 18, 2012, it paid close to \$3 million in chargebacks.

"JetPay projects that in a matter of weeks, the cash shortfall will likely exceed several million dollars and may reach as high as \$20 million, which will jeopardize the ability of JetPay to continue business," Chester said.

Missing funds

Direct Air noted in its March 23 objection to the JetPay motion for relief that "the exact amounts and/or reasons for the shortfall [in the escrow account] are not clear." Direct Air said it would do a forensics investigation to determine exactly what happened to the money that was supposed to be in the escrow account.

In a statement, JetPay President Trent Voigt said, "All consumer funds are deposited into a Department of Transportation escrow account to protect consumers in this exact situation. JetPay also carries catastrophic chargeback insurance to be able to easily deal with these kinds of rare occurrences and will cover any shortfalls if any exists within the escrow account."

Voigt added, "It is unfortunate that Direct Air's customers were abandoned as they were. JetPay stands behind its customers and is wholly solvent with the right insurances in place to make sure all valid credit card chargebacks are covered." ■

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Coalition responds to retailers' debit rule complaint

On March 15, 2012, a coalition of financial institution trade associations petitioned to file an amicus brief in a lawsuit brought by a group of retail associations. The retailers are protesting the Federal Reserve Board's rule implementing the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

The retailers' are dissatisfied

An amicus curiae brief is filed by entities not a party to a case but who believe they have information to offer that will assist a court in making a decision. A court decides whether to consider an amicus brief, depending on whether it finds the filers and information to be relevant to the case in question. The retailers' suit was filed in the Federal District Court of the District of Columbia in November 2011 – one month after the final rule implementing the Durbin Amendment went into effect. The suit claims the final debit interchange rule is flawed because the Fed did not follow the law when creating and implementing the rule.

According to the plaintiffs, the Fed considered costs it was barred by law from considering when it developed the new rule, which cut the average debit card interchange rate to approximately half of what it had been. The retailers stated

the Fed failed to provide them the full extent of swipe card relief Congress meant for them to have.

Financial institutions disagree

In the proposed amicus brief, the petitioning financial institutions argue that the final rule is flawed, but for opposite reasons of those put forth by the retailers. They claim they will be harmed, and consumers will receive no benefit, if the court decides in favor of the retailers.

The financial institutions' amicus brief states that if the court finds the Fed did not provide the full debit card interchange fee relief Congress intended, it will contradict the congressional mandate in the legislation that the interchange fees include a reasonable rate of return for issuers. The brief also asserts that the "below-cost fee cap" in the Federal Reserve Board's final rule is not in the public's interest because the rule "imposes significant burdens on consumers," the rule imposes "serious harm on financial institutions," and because the final rule "grants a windfall to merchants with no corresponding benefit to consumers."

The brief additionally argues the Durbin Amendment "does not require issuers to enable additional networks for electronic debit transactions or multiple networks for each form of transaction authorization" as the Fed requires in its final rule.

Consumers gained nothing

Trish Wexler, a spokeswoman for the coalition of financial institutions submitting the proposed amicus brief, said, "The merchants have claimed all along that imposing government price controls on interchange fees would directly benefit consumers, yet there is absolutely no evidence that they have lowered their prices. So while consumers have gotten nothing from the retailers, the merchants are back asking the courts to add even more to the \$6 billion windfall they are now enjoying."

Bill Cheney, President of the Credit Union National Association, warned deepening the cut in debit interchange

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fees would mean customers of financial institutions would have new fees and cuts in benefits "that will be needed to continue supporting the payment systems infrastructure." ■

Consultancy faults PCI tokenization guidance

According to a webinar conducted by research firm Securosis LLC, the PCI Security Standards Council's (PCI SSC's) tokenization guidelines lack exactly that – guidance. In the webinar, Adrian Lane, Senior Security Strategist at Securosis, criticized the council's supplement as offering broad generalizations rather than practical advice on how to implement tokenization as a data security solution.

Lane said the problem with the PCI SSC's tokenization guidelines is that "the supplement is sorely lacking in actual guidance." He faults the supplement for not providing actionable advice on how to maximize Payment Card Industry (PCI) Data Security Standard (DSS) scope reduction using tokenization. The concept of PCI scope reduction means how businesses can set up networks and implement data security solutions that decrease the amount of energy and resources they must spend on fulfilling security compliance responsibilities mandated by the PCI SSC.

According to Lane, Securosis research shows tokenization offers better security, lower risk for merchant fraud and, potentially, significant compliance cost reduction. When properly installed, tokenization should eliminate as much as 50 percent of merchants' PCI DSS compliance costs, he said.

Taking issue with the PCI SSC

In the webinar, sponsored by Liaison Technologies Inc. and entitled *What the PCI Task Force Didn't Say*, Lane listed "significant gaps" in the PCI SSC's tokenization guidelines, including a failure to:

- Define how tokenization simplifies compliance
- Discuss the potential for improved security through tokenization
- Demonstrate how tokenization reduces PCI scope
- Provide a method for reducing PCI scope
- Set forth tokenization testing procedures for merchants

Lane said encryption alone may not be enough to keep a POS system out of PCI scope if the data encryption system also includes the key for the decryption of data. "That's where you run into trouble," he said, because the decryption key brings the system back into PCI scope. However, tokenization offers less of a need for data to be detokenized, which therefore lessens businesses' exposure to PCI scope, he said. Securosis advises against using "some technologies and deployment models that, frankly, should not have been lumped into the supplement, because they don't simplify and reduce risks in the way any merchant should be looking for," Lane added.

Looking out for merchants

Lane admitted that Securosis' opinion on the PCI SSC's tokenization supplement will anger "many interested stakeholders." But he considers this result unavoidable. "Our guidance is geared toward making the lives of merchants who buy tokenization solutions easier, rather than avoiding conflict with vendor products or PCI Council politics," Lane stated in a December 2011 white paper titled *Tokenization Guidance: How to Reduce PCI Compliance Costs*. "No

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News

technology vendor or payment provider ever endorses guidance that puts their product or service in a bad light, so not everyone will agree with our technology recommendations."

Lane said that, according to the PCI SSC tokenization guidelines, "PCI DSS scope can never be reduced with tokenization," and that, rather than define what is out of scope, the said guidelines outline "many objectives to be met, apparently without regard for where the credit card vault resides or the types of tokens used." *The Tokenization Guidance: How to Reduce PCI Compliance Costs* white paper can be accessed at www.liaison.com/docs/whitepapers/liaison-tokenization-guidance-whitepaper.pdf. ■

Heartland breach suit settled

On March 20, 2012, a judge in the Southern District of Texas approved a settlement agreement in the consumer complaint brought against Heartland Payment Systems Inc. The settlement gives almost nothing to consumers and leaves three nonprofit organizations and plaintiffs' attorneys to divide settlement funds.

The complaint and settlement are the fallout from hackers that broke into Heartland's computers and stole at least 130 million debit and credit card numbers. The breach, which was reported in January 2009, was one of the largest data breaches in history. An American, Albert Gonzalez, was convicted of participating in the breach and is serving a 20-year prison term as a result. Two

East European hackers who are alleged to have participated in the breach have not been prosecuted.

Small payout to class members

Despite the enormous amount of data stolen and repeated attempts to notify potential members of the class that they had the opportunity to participate in the claim, fewer than 300 people claimed damages in this lawsuit. Of those 300 claims, only 11 were deemed valid. As a result Heartland, which had a settlement reserve of \$1 million, paid only \$1,925 of the reserve to class members.

The settlement agreement called for any unpaid balance left in the settlement reserve to go to three nonprofit organizations working to protect consumer privacy: the Smart Card Alliance, the Secure POS Vendor Alliance and the Financial Services Information Sharing Analysis Center.

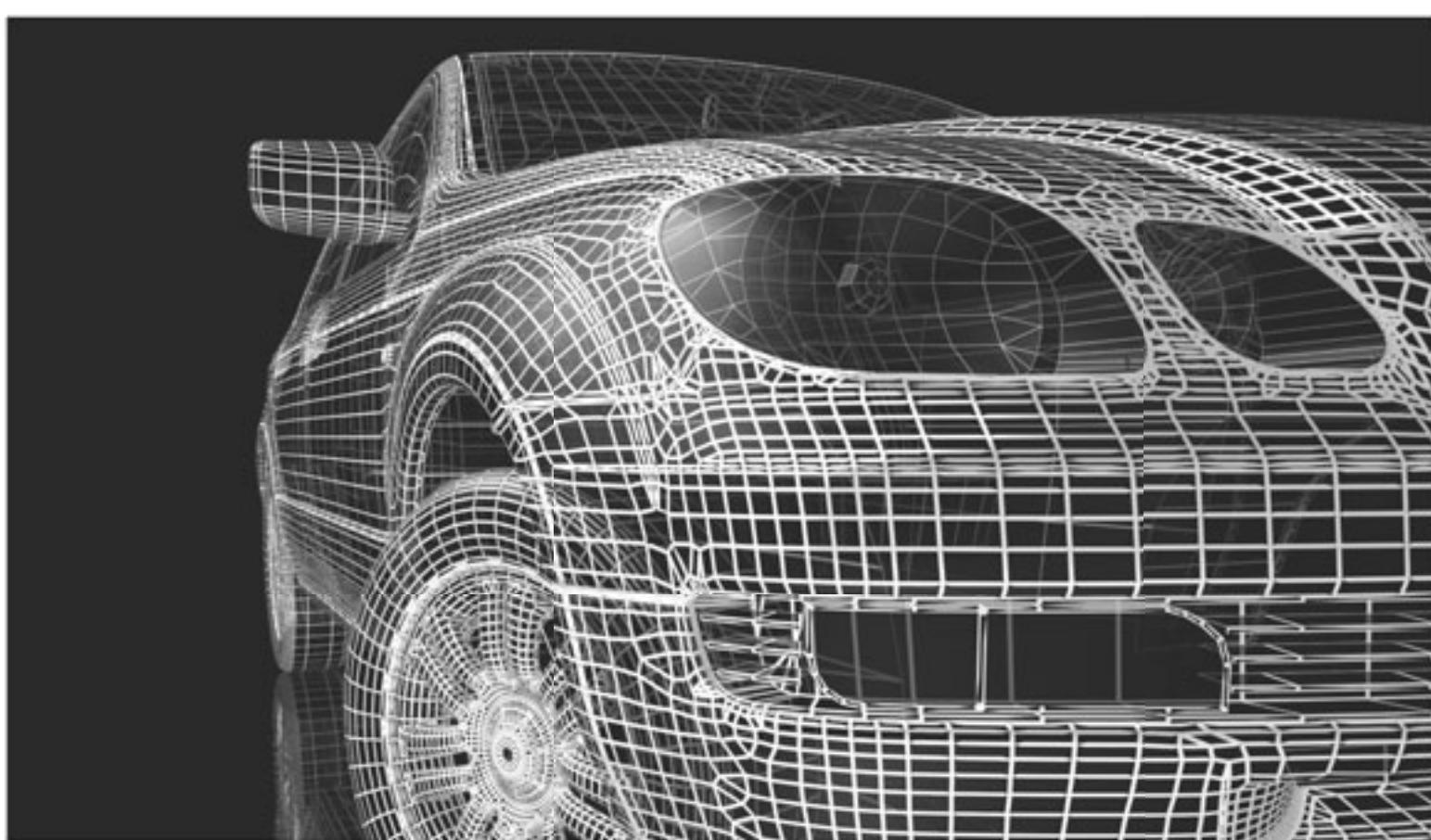
Discounted award to nonprofits

Federal District Judge Lee H. Rosenthal, who presided over the settlement, discounted the award to the nonprofits by 50 percent, that is, to \$499,037.55. "Although the ... award will assist the three organizations in working on improved payment-card security, whether, when, and how much improvement will result are all speculative," the judge wrote in his memorandum and order. "Although the ... award is appropriate, the indirect, speculative, and deferred nature of the benefit strongly support valuing that benefit at one-half of the payment amount."

Attorneys were awarded \$606,192.50; costs awarded were \$35,000. The court valued the total settlement (including administrative costs and attorneys' fees) at just over \$3 million.

Regarding the settlement, Heartland said it is "glad to put this behind us and that a major portion of the settlement will go to various third-party organizations committed to enhancing card security for consumers and merchants." ■





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SellingPrepaid



Prepaid in brief

NEWS

N.J. escheatment rollback bill advances

On March 15, 2012, the **New Jersey Assembly** passed a bill that would reverse a controversial state law that governs abandoned property, such as balances on unused gift cards. Among the provisions of New Jersey State Assembly bill A1871 is the removal of certain types of stored-value (gift) cards from the list of instruments covered under New Jersey's abandoned property provisions. The bill was approved on a 48 to 27 vote, with four legislators abstaining.

CFSI discloses fee disclosure box model

The **Center for Financial Services Innovation** released the template of a fee disclosure box that could be used to standardize the way prepaid card companies inform consumers of the fees associated with card programs. Green Dot Corp., Plastyc Inc. and Ready Credit Corp. have agreed to work to develop the model, the CFSI said.

FinCEN releases new MSB registration form

The **Financial Crimes Enforcement Network** (FinCEN) released the Registration of Money Services Business (RMSB) form on March 14. The new form, called FinCEN Report 107, replaces FinCEN Form 107, which the agency now calls the "legacy RMSB." The new RMSB form is used by businesses subject to federal anti-money laundering (AML) regulations to register with FinCEN as MSBs.

ANNOUNCEMENTS

AmEx extends footprint via Office Depot

American Express Co. said it will extend the reach of its low fee general purpose reloadable (GPR) card, the American Express Prepaid Card, into over 1,100 Office Depot Inc. stores. AmEx is targeting small businesses and families with the Office Depot initiative.

Arroweye expands card production portfolio

Prepaid card manufacturer and marketer **Arroweye Solutions Inc.** signed agreements to provide card manufacturing, personalization and fulfillment services for Convenient Cards Inc., Rapid Financial Group Inc. and Plastyc.

OceanPay continues growth trajectory

Atlanta-based program manager **Brightwell Payments Inc.** expanded its relationship with cruise line operator The Apollo Group to distribute the OceanPay payroll program to two more of its ships. When the implementations are completed in 2012, nine total Apollo ships will be outfitted with the solution, representing about 4,000 crewmembers having wages loaded onto OceanPay payroll cards, Brightwell said.

CashStar expands, introduces, renews

CashStar Inc. made several moves to accelerate its growth. First, the digital gifting company expanded its operations and services to the United Kingdom. Second, CashStar launched its Web Gifting 2 platform, which boasts a new user interface for both senders and recipients of virtual gift cards. Finally, CashStar added The Home Depot U.S.A. Inc., Staples Inc., CVS/pharmacy and Landry's Inc. to its stable of retailers that utilize its e-gifting platform.

SVS clients offered AML compliance services

In advance of the March 31 deadline for prepaid card businesses to comply with FinCEN's updated AML regulations, prepaid card processor **Ceridian Stored Value Solutions** (SVS) began an automated AML compliance service for its clients.

Contact Solutions offers cloud automation

Cloud-based contact automation solutions provider **Contact Solutions LLC** reported it now services over 17 million prepaid cardholders. High customer satisfaction ratings for its automated service translate into millions of dollars saved by program managers in reduced customer service expenses, the company said.

First Data reports prepaid usage up in 2011

Based on its proprietary SpendTrend Solutions database, **First Data Corp.** concluded average gift card dollar

volume growth on a year-over-year basis increased 10 percent during the last six months of 2011. Additionally, economic pressures caused a jump in prepaid fuel rewards programs, which resulted in retailers gaining a greater share of consumer spending, First Data said.

PARTNERSHIPS

Amway selects Citi for independent seller cards

Direct seller **Amway Corp.** tapped CitiGroup Inc.'s **Citi Prepaid Services** to manage the Amway Prepaid Visa Card in the United States and the Amway Prepaid MasterCard Card in Canada. The cards will be used by Amway to make bonus payments to Amway independent business owners.

Bancorp to distribute NetSpend cards

The payment division of The Bancorp Inc. subsidiary **The Bancorp Bank** began issuing **NetSpend Holdings Inc.**'s GPR cards distributed via 7-Eleven Inc. stores, as well as co-branded GPR cards with HEB Grocery Co. LP (H-E-B Grocery Stores) and PayPal Inc.

PreCash expands with utility payments

Prepaid card processor **PreCash Inc.** furthered its walk-in payment networks by signing an agreement with **ACH Payment Solutions Inc.** and its subsidiary **Prepaid Energy Solutions**. The deal allows PreCash users to pay utility bills in nearly 10,000 of its walk-in retail locations nationwide, according to the processor.

Plastic Jungle to help fund rewards

U.S. Bank, the lead bank of U.S. Bancorp, joined with gift card exchange operator **Plastic Jungle Inc.** to enable FlexPerks Travel Rewards Visa Signature credit cardholders to exchange closed-loop gift cards for FlexPoints. The reward points can be used to fund travel, merchandise and other types of purchases.

ACQUISITIONS

FleetCor takes NovoPayment assets

To increase the size of its fuel and food card portfolios in Mexico, **FleetCor Technologies Inc.** signed an agreement to acquire the assets of Tebca and Servitebca, subsidiaries of Miami-based processor NovoPayment Inc.

Trycera purchases business center

Program manager **Trycera Financial Inc.** bought a business center to serve as the operations center for its Video Email service, which facilitates video messages of up to 20 minutes embedded in e-mails.

APPOINTMENTS

Glendinning joins CashStar in U.K.

To support its expansion into Europe, CashStar hired **Arun Glendinning** to serve as Director of Business Development in the U.K. Glendinning was formerly a general manager at U.K. home improvement retailer B&Q.

CFSI's Koide heads to Treasury

The U.S. Department of the Treasury named **Melissa Koide**, former Vice President of Policy at CFSI, to the position of Deputy Assistant Secretary responsible for financial access, financial education and consumer protection matters. ☞



Features

Expo meets expectations in atmosphere of change

Prepaid Expo USA 2012, held March 12 through 14 at the Mandalay Bay Hotel & Casino in Las Vegas, featured keynote addresses on the interrelated topics of innovation and change; panel discussions on new technologies, new markets and new ways of marketing to consumers; and exhibit hall demonstrations of new products and services to reach unbanked consumers worldwide.

The Innovation Keynote address was delivered by Arianna Huffington, President and Editor-in-Chief of the Huffington Post Media Group. She related how the success of the Huffington Post as an online news and opinion site grew out of the failure of traditional newspapers to grasp the significance of the Internet.

In 2005, when the HuffPost was founded, newspapers viewed the Internet as an "add on" to the physical newspaper, rather than a new, "transformational" medium, Huffington said. In fact, Huffington believes there would have been "no room for the HuffPost if newspapers took to the Internet faster."

Traditional newspapers are examples of how success breeds complacency, Huffington noted. Businesses that fail to evolve are guilty of failing to "embrace failure," she said, because taking chances and making mistakes

Selling Prepaid

are necessary stepping stones to success. She offered the fabled example of the Post-It Note as a "child of complete and utter failure – a glue that wouldn't stick."

A shot across the NFC bow

Prepaid cards and virtual prepaid accounts seem to be at the heart of every new mobile payment scheme that arises. A panel discussion featuring PayPal Inc.'s Don Kingsborough focused on the future of that intersection. Kingsborough, Vice President and General Manager of Retail and Prepaid at PayPal, was lured away from Blackhawk Network, where he was credited with creating the gift card mall concept – considered a key growth driver in the prepaid card market.

Kingsborough is leading PayPal's mobile payment foray into the brick-and-mortar retail world. He believes the future of contactless payments at the POS is cloud- rather than near field communication- (NFC) based. "If NFC is your strategy, get a new strategy," he said.

Kingsborough based his opinion on historical trends in prepaid. The gift certificate evolved into the plastic gift card, which is now transitioning into a virtual, cloud-based card. That same trajectory happened with the mobile wallet, which began as a physical wallet, became a digital wallet and is now becoming a "cloud" wallet, Kingsborough said.

Closing the security triangle

As mobile wallet schemes proliferate, one hurdle is how to secure mobile transactions. Jumio Inc. presented its technology solution, which transforms integrated mobile phone cameras into payment card readers. But the technology does not just record account information off the cards, it also verifies the physical existence of cards, said Sonny Singh, Vice President of Business Development at Jumio.

Thus, Jumio brings card-present security to card-not-present (CNP) online and mobile transactions. Singh said the solution reduces fraud and speeds up the transaction process as it eliminates the tedium of consumers having to manually input card data into order forms.

Singh noted that card scan security is enhanced when it is combined with the two other legs of the security triangle: identification document scanning (driver's license, passport) and facial recognition. He said companies can ramp up security protocols based on dollar value thresholds.

For purchases under \$100, Jumio's technology can be optional. But as the dollar value rises (along with the potential for fraud), card scanning can be coupled with ID scanning and then facial scanning for high-dollar transactions, he said. Singh added that greater security on mobile payments could mean a reduction in the fees the card brands charge for high-risk, CNP transactions.

Outside the box, into the bank

At the Innovation Showcase, a new feature of the expo, David Alvarez, Chief Executive Officer and co-founder of Nexxo Financial Corp., demonstrated the "Bank in a Box" self-service payment platform. It allows customers to set up accounts that can be accessed via kiosks, POS counters or mobile phones to complete a number of transactions quickly at one time, from paying bills and reloading cards to topping up phone minutes and withdrawing cash.

"Our technology platform that allows you to process all those different types of transactions is powerful," Alvarez said, adding that since the solution is available across multiple channels, it provides additional convenience for unbanked consumers. "I think the real power is in the platform itself, where we're making and creating a customer-centric value proposition so that customer has their profile and all their information available at all of those distribution points," he said.

The expo itself delivered that same variety. 

Prepaid goes to Washington

Reflecting the mounting visibility of prepaid cards in the marketplace, industry representatives took part in a March 14, 2012, U.S. Senate subcommittee hearing on business practices and consumer issues concerning prepaid.

At the hearing, Netspend Holdings Inc. Chief Executive Officer Dan Henry and Center for Financial Services Innovation President and CEO Jennifer Tescher informed senators why prepaid cards are important financial tools for millions of financially underserved consumers in the United States.

In a statement, Tescher made the case for general purpose reloadable (GPR) cards as a necessity for the most "financially vulnerable" consumers who cannot afford basic banking services. She characterized that growing segment of underbanked consumers as individuals facing home foreclosure, unemployment and high levels of debt due to the country's financial turmoil.

Tescher recognized that some prepaid products are "poorly structured, outrageously priced and a bad deal for consumers," but that the majority of products are accessible, simple and convenient. To ensure the industry lives up to its promise, Tescher recommends consumer protections be implemented, including Federal Deposit Insurance Corp. pass-through insurance, Regulation E requirements and standardized fee disclosures.

As contained in the Credit Card Accountability,

Responsibility and Disclosure Act of 2009, Reg E mandates fee disclosure requirements.

Dealing with bank abandonment

Henry took a different tack in his testimony. He characterized banks as having abandoned the underbanked. He cited FDIC research that revealed 73 percent of banks realize underbanked consumers represent a sizable portion of their markets, but that only 17 percent of banks have made outreach to the underbanked a priority.

Not so at NetSpend, where word of mouth has driven the popularity of its GPR card products, Henry said. Contrary to the notion that the industry is an unregulated "Wild West," NetSpend for one is "highly regulated" at the federal and state levels, he added. In fact, Henry is convinced GPR card providers serving the underbanked adhere to a "higher standard ... with an ethos of service to hardworking people often struggling to make ends meet."

Other forces at play

In the question and answer session that followed the statements, Tescher was pressed on the role of the Durbin Amendment to the Dodd-Frank Wall Street and Consumer Protection Act of 2010 in swelling the ranks of GPR card

users. Tescher responded that one reason more people have turned to prepaid is because banks eliminated free checking accounts to shore up shortfalls from decreased debit card interchange revenue related to Durbin.

"You're seeing banks start to re-price and restructure their accounts in a way that, frankly, just won't be of enough value," she said. "I don't think a lot of banks are effectively kicking consumers out. I think consumers are voting with their feet."

Henry pointed out that other forces are in play that benefit prepaid, such as the limitations of the banking system's physical infrastructure. "The most efficient banks in this country can serve maybe 5,000 customers per retail branch," he said. "And those banks need \$20-to-\$30 million in deposits per branch."

"Netspend has 2 million customers, which means we would need 400 branches to serve 2 million customers. But with an average daily balance of around \$80, our static deposits might be enough to support four or five branches. So the basic business model of traditional retail banking – and it's not to be a criticism of the banks – it will just never, ever be able to serve this load of modern consumers." 📱



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Choosing a partner for life

By Justin Milmeister

Elite Merchant Solutions

Like it or not, everyone is faced with making life-changing decisions. And one of the most important decisions we make is who to partner with on both personal and business levels. On a personal level we hope we chose "the one" and live happily ever. Unfortunately, the odds of that happening are about the same as winning the flip of a coin.

Now, the focus of this article is our business lives, where many entrepreneurs pursue their dreams, often with partners who share the same vision from the start. Ideally, in any partnership, each party brings a separate but equally useful, complementary skill to the new venture.

For example, one partner may be highly skilled in sales, and the other may be expert at running the financial side of the business. Both skills are equally important: you need sales for the business to succeed, but you also need to account for the sales and ensure budgets are monitored and overall finances are in order.

If you are new to the business, you will need ample training and mentoring to give your company the best chance for success. Don't get me wrong; price is extremely important, but factors outside of price must be considered when choosing a nontraditional partner.

Different types of partners

In the payments industry, we are all entrepreneurs, and each of us has at least one partner. Some of us have what I refer to as "traditional" partners in which duties are shared to accomplish united goals.

Others do not have traditional partners and set out to conquer merchant services on their own. However, all of us have what I refer to as "nontraditional" partners, and those can be banks or ISOs through whom you write your hard-earned business.

It is human nature that turns our focus to price when choosing a nontraditional partner, which is OK, as this is a very important piece of the puzzle.

However, price is not the only thing to consider when

choosing a nontraditional partner. You must ensure that the partner focuses on what is important to your organization and has the synergies that mesh with your business model. For instance, if you focus on high-risk merchants, you can never board your merchants with a provider that does not accept high-risk merchants. Even if the provider offers rock-bottom pricing, it would be of no use to you.

Advice for new agents

If you are new to the business, you will need ample training and mentoring to give your company the best chance for success. Don't get me wrong; price is extremely important, but factors outside of price must be considered when choosing a nontraditional partner.

Further it is important not to fall prey to tricky pricing schemes. The old saying, "If it sounds too good to be true, it probably is," certainly is an accurate statement when it comes to pricing schedules in the payment processing industry. People new to the industry should have a bankcard attorney or seasoned payment processing veteran review their agreements and corresponding pricing schedules before signing anything.

In the 10 years I've been in the industry, I've experienced quite a bit, some good and some bad, with respect to partners. But all the experiences have provided valuable lessons.

In the beginning, I had no traditional partners. However, over the years, I have taken on traditional partners with unique skills that have contributed to my company's success. Not all my choices regarding traditional partners have worked out the way I had wished, but nevertheless I learned from them.

The nontraditional partners I started out with remain the same today for the most part, which in large part was because I did my homework and found the right fit and synergies from the beginning. The payments industry has been great to me; I can only wish the same to all of my colleagues who have chosen a career in payment processing.

Spend time choosing your partners, both traditional and nontraditional, and you will most certainly be blessed with success for many years to come. 🍀

Justin Milmeister is the President and founder of Elite Merchant Solutions, which has been honored three years in a row by Inc. magazine as one of the top 500 fastest-growing privately held companies in the nation. He is also a member of The Green Sheet Advisory Board. Justin can be reached at justinm@elitedatacorp.com, and more information on Elite Merchant Solutions can be found at www.elitedatacorp.com.



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Technology, a catalyst for ISO growth

By **Mustafa Shehabi**

PayCube Inc.

If you've been reading the headlines the payments industry has garnered over the last several months, it is probably easy for you to visualize the increasing influence of payment systems on consumer behavior at the POS and vice versa.

In my consulting tenure over the years, in payments and more specifically retail payments, I have observed two distinct issues facing the varied players in the payments ecosystem. The players I'm referring to are those involved in POS transaction acquiring and processing, including switching, settlement and reporting, as well as entities involved in the broad space of security related to transactions and payments.

Two primary issues

Though seemingly different, the two primary issues these players are dealing with are at the core of the headlines we see hogging the limelight. The issues are:

1. Merchant efforts to unify multichannel payments to provide value

Most large retailers and e-commerce merchants, and more so now the smaller merchants, want a way to have their presences felt across various consumer interaction channels. The merits of this, and whether this will yield true and measurable benefits to merchants and consumers, is an entirely different subject. However, the fact is that almost every retailer is exploring more than one electronic channel as a means of interacting in some way with consumers and thereby opening the way to enable that channel for payment transactions.

2. Payments industry shift from cost-based to value-based processing

Focusing on value-based processing is a very strategic position to take in the world of payments. I believe the big players in the game – for example, Visa Inc., PayPal Inc. and Google Inc. – are clearly positioning themselves to use this as a leading differentiator. I also believe the future battle of payments will be fought right here.

The importance of adding value

If you look at how players large and small are aligning themselves around these issues, it begs the question,

What true value will today's ISOs, merchant level sales-people (MLSS) and others in the acquiring community need to deliver?

I started my career in information technology (IT) distribution and have always believed that harnessing distribution channels can provide power in any ecosystem. In the payments space, the ISO channel has traditionally played the role of sales distributor – primarily selling credit and debit transaction processing services to merchants on behalf of acquiring bank partners.

However, with the advent of multichannel integration, involving offline channels trying to merge with those of online channels, it is an imperative for ISOs and their partners to ask, What do I need to do to provide better value to my merchants?

The answer to this lies in how you look at the payments industry now and how you think it is going to evolve. I believe this industry is going to change drastically. If you look at the last few years in payments, there has never been a more dynamic time in which industry leaders have taken bold moves, and new players, models and ways of doing business have emerged.

Unlike what we all have grown accustomed to in recent years, the payments industry today is not selling a commodity. If you, like me, were to subscribe to this view, then I think we would have to believe that today's ISOs, which thus far have not taken full advantage of technology as a value add, have to start selectively looking at technology as a way to differentiate themselves and help them play a meaningful role in the distribution channel they are part of.

I think this is a broad discussion; however, one compelling aspect to explore is that ISOs can gain certain benefits by "touching" transactions, which are now typically routed straight from the payment terminal (as an example) to the acquiring processor. Having a custom acquiring infrastructure that allows an ISO to touch, and thereby control, transactions is becoming more relevant. A gateway can facilitate this.

Owning, not renting or leasing

Having a gateway and a switch of your own helps ISOs in the following ways. It provides ISOs:

1. Multiple processor relationships for transaction authorizations
2. Multiple processor relationships for settlement
3. Least cost routing
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5. On-us processing and the ability to settle transactions

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6. Possibility of adding value through handling nonpayment transactions
7. Increased market penetration – geographic, industry, high risk, etc.
8. Potential increase in ISO valuations
9. One-stop shop for merchants – increasing stickiness and thereby increasing margin per transaction

This can sound complicated, but all of this can be phased in. For instance, you can decide not to store or manage cardholder data, thereby keeping your involvement with the Payment Card Industry Data Security Standard and related mandates to a minimum.

Building and managing technology today is cheaper than ever, but anyone thinking of embarking on this journey needs guidance and a well-rounded, incremental approach toward building or buying gateway components. Before doing this, it is essential to make sure you have an IT strategy that is aligned with your business objectives.

A sticky solution

The challenge is to plan for and invest in a scalable architecture that takes care of traditional as well as emerging payment types. This can be daunting, as most technology outsourcing shops are not payments focused.

However, today's next-generation payments infrastructure can use diverse and scalable components, and there are many suitable approaches. As long as your architecture and business and functional requirements are thought out and planned, you will have a solution fit for your purpose.

Nowhere does this imply that you have to process transactions yourself. You just need to provide a value-added layer before you hand over the transactions to the processor of your choice. This will thereby increase stickiness with your merchants, something all ISOs and MLSs desire. ■

Mustafa Shehabi is the co-founder of PayCube Inc., which is a Bay Area, Calif.-based payment consulting and IT services company providing custom software solutions and custom gateways for acquirers, ISOs, retailers and varied organizations in the world of payments and consumer transactions, including prepaid and gift card program, loyalty and promotion, payment start-up, POS solution, mobile payment and e-commerce players. PayCube uses a blend of on-site and offshore delivery capabilities, with a focused staff of retail and payment focused software engineers, architects, project managers, tech leads and systems analysts. More information, email ms@paycubeinc.com, call 925-285-6265 or visit www.paycubeinc.com.

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Company Profile



Electronic Payment Exchange

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 Wilmington, DE 19801
 Phone: 302-288-0600
 Fax: 302-288-0601
 Email: sales@epx.com
 Website: www.epx.com

ISO/MLS benefits:

- Top 10 ranked direct-connect processor for large-scale merchants
- Cross-channel brick-and-mortar, e-commerce, MO/TO merchant solution
- PCI compliant platform with tokenization, end-to-end encryption
- Front-end technology, authorization, settlement services
- Customer-centric ISO and merchant support program

A direct link to large merchants

Electronic Payment Exchange boasts of being the smallest of the top 10 companies that have direct connections to Visa Inc. and MasterCard Worldwide. But being lean has enabled EPX to develop innovative technology. EPX also claims to have a closing ratio of over 50 percent, having boarded key stakeholders in e-commerce, education, health care, insurance, utility and financial institution sectors.

As a full-service international payment processor, EPX has engineered an integrated, end-to-end payment processing platform that is designed to deliver secure front- and back-end processing. Acting as a payment gateway and acquirer, the platform handles brick-and-mortar, Internet and MO/TO merchants, as well as corporate environments where electronic payments are accepted.

In January 2012, EPX expanded its reach beyond the United States, Canada, Latin America and the Caribbean by becoming a direct merchant acquirer in the European Union. Before then, EPX offered payment processing indirectly to EU merchants on behalf of its bank clients.

According to Joe Babin, EPX Executive Vice President, the EU initiative grew from merchant demand for access to more than payment processing. "Our single-source offering will provide all the technical requirements and financial services required to accept payment, including merchant accounts, front-end technology, authorization and settlement processing, comprehensive reporting, exception handling, and customer support," he said.

Ground floor technology

In 1979, Bill Robinson, formerly with Wilmington, Del.-based WSFS Bank, founded EPX as a small automated clearing house (ACH) processor focused primarily on health club membership programs. In the mid-1990s, investment banker Raymond Moyer joined the firm as President and Chief Executive Officer and evolved the company into an ISO with a payment gateway.

"Shortly thereafter, we had the good fortune of also developing a back-end settlement capability," Babin said, at which point EPX applied for and was granted direct connections with Visa and MasterCard. "We ended up as a direct-connect processor very early on in our history, which is a big differentiator, certainly against all the ISOs because they're not able to price the business at the same levels as we are," he added.

Another distinguishing factor is the company's internal development and technology team. "We didn't have to go out and buy the technology," Babin said. "We developed it ourselves. The value proposition showed up in the e-commerce world because we were the first to do online web reporting. We were able to report on the transaction through its entire lifecycle because we handled the authorization all the way through settlement."

Targeting e-commerce businesses attracted investors seeking access to the emerging online retail sector, and in 2002, EPX was acquired by InterCept Inc.

This is How a Second-String Player Becomes an All-Star.



It was game 1 of the 1988 World Series. Bottom of the ninth, two outs, the underdog LA Dodgers were trailing 4-3. Surprising everyone, LA's coach taps berched and injured Kirk Gibson to pinch hit. Gibson, in his only appearance of the series, slams in a two run homer to give the underdogs a 5-4 victory.

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Company Profile

A few years later, Moyer and members of the original management team bought back segments of the company, including its name.

"We weren't a startup from the perspective of technology, name brand and management with core competency," Babin said. "We were able to bring those three things back to the table and effectively go back out and start building our revenue stream again."

Starting in 2006, EPX rebuilt its entire platform, which included developing a security tool set. "We were the first ones to come out with a token," he noted. "But what's even more powerful is that our platform offers end-to-end encryption together with tokenization."

He also said the new platform addressed issues like interchange and Payment Card Industry Data Security Standard compliance. And mobile payment technologies are in the works.

The merchant angle

EPX's inside sales force is accustomed to dealing with Level 1 and regional merchants, as well as multinational clients. A typical candidate "has a mix of e-commerce, call center and point-of-sale, and then they push that globally to multiple locations and end up in Europe as well as the

United States," Babin said. "We bring one platform to the table to handle all payment types, all distribution methods, in all regions for them."

One such client is RIVA Payments. "Their technology was a big draw for us," said Tom Varian, RIVA Chief Executive Officer. "I have a lot of middle market clients. In the middle market arena, you have a lot of customers that need to leverage the end-to-end encryption and tokenization that EPX offers."

"We have a number of publicly traded companies that we've been able to put on the platform, and the technology coincides with their SAS 70 reporting requirements."

Varian was also drawn to the EPX platform's flexible reporting features. "If you go to some other platforms, they have very basic, static reporting," he said. "If you look at EPX's reporting tool, it's very dynamic. You can pull all kinds of information out of the Web suite tool in any format you need."

With 10 user-defined fields, merchants can use EPX's reporting tool to track data throughout the transaction life cycle. "We find that every single one of our clients takes full advantage of the 10 user-defined fields," Babin said. "We're the only one in this space that offers it."

Varian also praised the platform for its ability to handle everyday retail situations. For example, when a customer contacts a merchant call center to return an item for a refund or to void a charge, the system handles the entire process.

"The EPX platform allows them to use the token rather than the actual card number from the consumer to do that refund or process that void, or to talk to them about whatever their issue is without actually having the card data," Varian said.

Babin added that EPX's BuyerWall Recognized Identification Code (BRIC) token is virtually impossible to reverse engineer, and the consumer's card number is not contained in the token – period.

"We step in between the origination of the transaction and the point in time where the merchant receives sensitive cardholder data," said Steven Kendus, Marketing Director for EPX. "That's where we think of placing a wall between the merchant and the consumer."

"The BuyerWall technology actually captures the transaction, sends it out for authorization and settlement, but we only provide the BRIC, or the token, back to the merchant."

Kendus said the BRIC combined with end-to-end encryption significantly reduces the scope of PCI compliance because merchants can only view the token and never



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EPX's hosted platform also provides chargeback adjudication. "We do have a chargeback department where we'll actually fight the chargebacks for the client, but all of that is done in a fully automated way," Babin said. Statements are also fully automated; clients receive them electronically.

To help merchants economize, the platform features a real-time interchange engine that searches the best available interchange category for individual clients. And EPX does not charge gateway fees, which some other companies do, Babin noted.

Although EPX has about 400 U.S. hospital clients operating on its platform, Babin believes the health care market has yet to be deeply penetrated. Another market where he sees great potential is the unattended self-service kiosk vertical – DVD rentals, ticketing, parking and electric car charging stations, to name several.

According to Babin, EPX is the payment processor behind the Redbox Automated Retail LLC movie and game rental

kiosks. It is also the exclusive payment partner for Sprint Nextel's machine-to-machine mobile solutions market.

"For kiosks that aren't hardwired into the Internet, they use wireless technology to communicate and transact," he said. "That's an example of a machine communicating back through the Sprint network. It's leveraging their network in that space as opposed to just handing out devices."

RIVA's Varian also pointed out that EPX stands behind its products. "You get the benefits of a robust processing platform, but when you do business with them, you get the feeling of being part of their family," he said.

That said, the EPX ISO model is unique for its hands-on approach. "We send our sales team in to sit either alongside of the ISO or to take the lead," Babin said. "What we don't do is give ISOs our product quote and then allow them to then represent it to the client. That's just not our model. We need to be at the table in front of the client."

Babin admits that while their ISO model may not fit everyone, there is a segment of the ISO community that views the partnership as an opportunity to pursue larger accounts and as a possible hedge against merchant attrition. ■

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Partnerships continued from page 1

payments the company acquires. Typically, these partnerships place First Data in charge of day-to-day operations, risk management, and merchant sales and support. Banks usually contribute sales leads and new business through branches and relationship officers.

Mutual assistance should be the focus

Like TSYS and First Data, ISOs and MLSs are searching for ways to grow markets. But there is some trepidation. "A lot of people have very closed minds about partnering with other organizations and allowing access [by those firms] to their customers," Brown said. But he noted this shouldn't be a concern if the partnership is equal. "Both parties have to be helping each other for a partnership to be successful," he said. Karawadra is not concerned about the notion of partners poaching customers. "If I lose an agent or a merchant, then I'm not doing something right," he said.

Merchant Data Systems, a South Florida ISO, partnered with Internet marketing firm Karma Shack in November 2011 to support an array of products and services. Sophisticated online marketing, card processing, gift and loyalty programs, working capital, payroll services, and "merchant friendly" Payment Card Industry (PCI) Data Security Standard (DSS) compliance are just some of the

value adds the partnership brings to the ISO's clients. "This is another example of our partnership mentality as we continue to develop new products and marketing strategies," Drew Freeman, President of MDS, said.

Customers are demanding more

Jerry Cibley, who does business as The POSMan, is an industry veteran with 25 years of POS system sales experience under his belt. He saw a big change taking shape in merchant services in the 1990s. That's when POS systems companies started partnering with acquirers and ISOs so that they could integrate card services with the systems they were selling merchants.

"We were just on the periphery then; we didn't even know about residuals," Cibley said, adding it was a big deal that sales teams were sharing leads, which helped POS systems companies sell to more merchants. "Then it changed again, and the ISOs started getting more involved," he noted. Most ISOs find it difficult to meet customers' changing demands. Few have the time, money or staff expertise to take care of every customer's every need. "I no longer have the time to take care of all of my merchants' needs," Karawadra said when explaining his decision to take on partners. "I needed to be out selling."

A partnership checklist

Business partnerships are a bit like marriages: you should want them to be for the long haul. "Picking the right partner is key because it is a reflection on your personal brand," said Capital Access Network's Mark Lorimer. "Choose one that is best for all parties long term, not just [for] you short term. Short-term compensation potential should not be a deciding factor."

Dee Karawadra of Impact PaySystem added that if you have "the right back-end partners, you shouldn't have any problems selling on the front-end." So what should ISOs and MLSs consider when evaluating potential business partners? Here's a starter checklist.

- What's the company's reputation among other ISOs and MLSs? (In addition to your colleagues, check industry chat rooms and forums, like GS Online's MLS Forum at www.greensheet.com.)
- How long has the company been in business?
- Who are the principal executives and project team members? How much professional experience do they bring to the industry generally and to your needs in particular?
- What's the underlying technology? Has it been proven to be effective?
- Is the product or service compliant with all applicable standards?
- Does the product or service adequately fit your needs, or does it require work-arounds?
- Would you use the product or service yourself?
- Can the offering integrate with your existing infrastructure?
- What kind of customer support is provided?
- How well does the product or service accommodate growth through product enhancements?
- Does the business provide client references, and have they been checked out?
- Is the business willing to agree not to market directly to your customers?

According to industry attorney Adam Atlas, an answer of no to any of these questions need not be a deal breaker, but a negative response certainly does require closer examination of a potential partner.

CoverStory

ISOs that think they can do everything in house are "missing out on the opportunity to establish deeper more profitable relationships," Lorimer said. Selecting partners isn't something that should be taken lightly, because choosing the wrong partner "could result in complaints to or about you and dry up referrals," he added.

It pays to be picky

Karawadra spent a great deal of time shopping for upstream partners when he was setting up Impact. "I went from ISO to ISO to ISO trying to find the right partner," he said. "I wanted someone who was honest, upfront and ethical." Karawadra hasn't stopped shopping for partners either; these days he's focused on partnering with specialty companies and professional associations to expand offerings and drive more business to Impact's agents.

Partnerships aren't just about driving sales. "If you choose the right partner, they can shield you from [messy] operations stuff," Bryan Daughtry, Vice President, Sales and Marketing at Up Solutions Inc., told ISOs and MLSs attending the Northeast Acquirers Association's winter tradeshow and outing in January.

Up Solutions has a partnership with ISO iPayment Inc. under which iPayment agents sell PC-based POS systems,

and Up Solutions takes care of back-end services: software configuration, installation, training and ongoing support. "This deal provides our sales partners a solution that strategically differentiates them from the competition," Mike Ackerman, Senior Vice President at iPayment, said when the partnership was formed in the spring of 2011.

Many factors spur partnerships

According to Lorimer, merchants are huge drivers of change. "They want ISOs to partner with them to tackle increasingly complex decisions," he said. For ISOs, this means putting together their own "payments ecosystems," he added. That payments ecosystem might include, in addition to bankcard processing, new payment types and form factors, PCI compliance services, payroll, marketing, prepaid and loyalty cards, and even access to capital.

With bank lending to small businesses at historic lows, access to capital has become a critical success factor. That's why ISOs, MLSs and acquirers are forging partnerships with companies like CAN, Lorimer said, adding that ISOs and MLSs have a critical role to play in the funding process. "They're intimately familiar with what their customers need," he said.

Economic factors also are driving interest in prepaid debit cards, especially closed-loop (gift) cards, and loyalty



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programs. "It's really difficult to lead with bankcard services these days," Brown said. "This is something else to help get you in the door." Brown, whose company has partnered with numerous MLSs in support of loyalty programs, suggested any business that expects to see a

customer at least once in 30 days is a good prospect for a loyalty program. "Once you get a merchant on a successful loyalty program, they will find it almost impossible to leave you," he said. And that, in a nutshell, is the power of partnerships. ■

Partners are not for everyone

There's an exception to every rule, as the saying goes. Among ISOs, Transaction Services (TrxServices) is an exception to the trend toward forging partnerships. "I've been real hesitant to partner with vendors, processors and others," said David Leppek, President of TrxServices, a Delaware-based ISO. "Even when I have to, I try to offer it as a value-add."

That's the strategy TrxServices has taken with PCI compliance. With a client roster stacked with Level 4 merchants, Leppek opted to build PCI compliance into its client interface – a homegrown system he described as ultra-secure and designed to handle anything MLSs and their clients need. "We don't need anything fancy until we come upon a customer involved in e-commerce, and I'd eat the cost on it because it's to my advantage for them to be in full compliance," Leppek said. An industry veteran, Leppek's career most recently included a stint at First National Merchant Services (now TSYS Merchant Services).

TrxServices put significant time into designing its interface system, which handles everything from lead generation, to marketing materials and contracts, to terminal implementation and trouble shooting. And most critical to Leppek, the system provides real-time insights into client activities. Leppek said he is often approached by firms looking to partner on new offerings, but "there really isn't any client demand." However, one request he has heard from clients is for mobile payment functionality. Leppek hired a team of software engineers to build a mobile payment interface for the company's system. "Once they've built it, I'll probably just give it away," Leppek added.

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Plotting a prosperous future

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Editor's note: The Green Sheet is most pleased that Jeff Fortney will be penning the Street SmartsSM column for the coming year. He has been a dedicated contributing writer to our publication for some time, even submitting articles in advance if he anticipates a particularly demanding patch ahead. Since Jeff is an active member of GS Online's MLS Forum, we expect he has already stirred up an active discussion thread or two that will be featured here. Why not join the conversation at www.greensheet.com/forums? I'm sure Jeff will give you a warm welcome.

In the payments world, street wisdom is necessary for navigating difficult situations, both during and after the sales process. We can read books, ask questions and even study the parameters of interchange, but if we don't have practical industry knowledge, healthy portfolios will elude us.

As we begin a new season of Street Smarts, my goal is to share the street wisdom that so many of us have obtained throughout our careers. I hope that offering practical, relevant lessons will help reduce the amount of time you have to spend in the school of hard knocks. I'll begin with thoughts on what our industry may face in the coming year.

What lies ahead?

The Spanish philosopher George Santayana once said, "He who does not learn from history is doomed to repeat it." From history, we gain insights that help us forecast the future, often within a reasonable margin of error.

Futurists and economic forecasters use market indicators and trends to predict such events as market meltdowns, upswings and more. They forecast markets based on

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specific statistics in an effort to increase their clients' revenues. Such predictions are never 100 percent correct because there is always the unforeseen. However, they can be highly accurate and are used in determining investment strategies and decisions based on anticipated gain or loss.

If futurists were to study the payments world, they would concentrate on revenue sources driving the industry. They wouldn't look at the specific revenue fields, but rather at the overall opportunity for revenue growth and retention. In our world, two areas would apply: new sales and merchant retention.

Who is my audience?

Before attempting to analyze historical data, futurists first seek to fully understand their market by asking, "Who is my audience?" I believe their answer for our realm would be "small merchants."

The Small Business Administration defines a small business as one that is independently owned and operated, organized for profit and not dominant in its field. Depending on the industry, size is based on the average number of employees for the preceding 12 months or on sales volume averaged over a three-year period.

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When it comes to examining merchant retention, a futurist will first want to know what drives attrition. The answer can be found by examining the health of the market and how it affects merchant decisions about their payment processors.

Examples of SBA general size standards include:

- Manufacturing: Maximum number of employees may range from 500 to 1,500, depending on the type of product manufactured.
- Wholesaling: Maximum number of employees may range from 100 to 500, depending on the particular product being provided.
- Services: Annual receipts may not exceed \$2.5 to \$21.5 million, depending on the particular service being provided.
- Retailing: Annual receipts may not exceed \$5 to \$21 million, depending on the particular product being provided.
- General and heavy construction: General construction annual receipts may not exceed \$13.5 to \$17 million, depending on the type of construction.
- Special trade construction: Annual receipts may not exceed \$7 million.
- Agriculture: Annual receipts may not exceed \$0.5 to \$9.0 million, depending on the agricultural product.

How healthy is the market?

The majority of merchants we target fit into the categories just listed, as they are the best sources of revenue in the payments world. Knowing that, futurists would then examine the market's overall health.

Again, the SBA offers valuable information, as it provides quarterly bulletins on the current marketplace, as well as historical data. It doesn't sugarcoat facts, which others can interpret and analyze. Consider the following:

- More than 27 million small merchants (by the SBA's definition) are doing business in the United States.
- Although 49 percent of new businesses fail within five years of launch, 44 percent survive four years, and 33 percent survive seven years or more.
- Small businesses with fewer than 100 employees represent over 99 percent of all employers.

These facts speak volumes about the recent recession and its impact on the small business community. In 2009, the number of small business "births" dropped. We were in the early stages of what is now being called the Great Recession, but the fact that there was a downturn during that year is an exception to historical records. Consistently,

history has shown that new business openings grow the first year of a recession.

Halfway through 2010, new merchant births began to grow again. In 2011, the number of new business openings, by quarter, ranged from 183,000 to over 225,000. Small business deaths spiked in 2008 and have declined ever since. Small business bankruptcies, which do not necessarily define closures but rather the financial situation of the merchant, rose dramatically in 2008 and 2009, but began a steady decline in 2010 that continued through 2011.

Not surprisingly, such a spike in closings and bankruptcies is common. A recession tends to be the "straw that breaks the camel's back" with many merchants who are already struggling. The recovery post-2009 is also consistent from a historical perspective. The numbers may be different, but the reaction of the market is the same. Many merchants are seeing growing sales volumes, and manufacturing and trade sales have risen every quarter since mid-2009.

Another important point not found within the SBA statistics is significant: 2012 is an election year. Typically, when a U.S. president is running for re-election, the economy is actually growing. There are exceptions to this rule, but they are few. Elections occurring during an economic downturn typically have not coincided with a sitting president running for re-election.

All things being equal, these statistics show there is a growing market for merchant services as we progress further into 2012.

What affects attrition?

When it comes to examining merchant retention, a futurist will first want to know what drives attrition. The answer can be found by examining the health of the market and how it affects merchant decisions about their payment processors.

During a recession, merchants become increasingly cost conscious. They understand that to survive, they must be frugal. They must control their costs because their sales volume will likely be down. Even the small overall cost of payment processing comes under scrutiny. Because of this, merchants become more susceptible to sales pitches centered solely on cost containment and control. Loyalty may have value, but in tough financial times, saving money trumps loyalty.



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StreetSmarts

Merchant level salespeople (MLSs) also become more aggressive in pricing accounts. They, too, fear a downturn in new merchant sales and feel the impact of bankruptcies and closures. As a result, sales practices developed to help merchants "ease their pain" wane in favor of more aggressive pricing and, of course, smaller profits.

During recessions, ISOs and MLSs frequently trade new merchants for diminished profit. Meanwhile, as the feet on the street are selling to new merchants at a lower return, their existing merchants are being wooed and won by competitors. Effectively, although the merchant count is effectively treading water, margins are sinking, and the battle to stay afloat could be lost.

As the marketplace improves, merchant concerns over cost control become less pivotal. However, many ISOs and MLSs, having developed poor sales habits, inadvertently delay taking steps toward margin recovery, which results in continued attrition. Other key factors related to retention are changes in price and process caused by external forces. In an ideal world, pricing changes would not exist. Merchants would rarely notice their processing costs, and as long as their service needs were being met or exceeded, they would not consider moving to new service providers.

However, we live in a world in which the card brands make frequent changes to their costs and structures. For example, Visa Inc. rolled out changes, effective April 2012, that will have an impact no matter how they are measured. This is not a prediction or a forecast – it's a fact. Historical references show that when the card companies change their pricing enough to create merchant pain, attrition grows. Although the changes affect every

processor, they nevertheless lead to portfolio retention pressure.

Futurists would also look for current situations in the industry that, if not corrected, could amplify attrition over the coming year. One glaring area creating attrition today is the way processors and ISOs are addressing the reduction in debit card processing costs mandated by the Durbin Amendment to the Wall Street Reform and Consumer Protection Act of 2010.

Many ISOs and MLSs offer different options for new merchant customers, but few have addressed their existing portfolios. The Durbin Amendment has already exacerbated attrition, and unless it is addressed, attrition will surely continue to grow.

What does 2012 have in store?

I do not claim to be a futurist or someone who has mastered the art of predicting what is around the next corner. What I can say is that if one analyzes data from the SBA and examines similar historical references, there are some things we can all agree on:

- 2012 will be better than 2011.
- There is a market for what we sell, and it is growing.
- It is essential to implement a plan for existing portfolio adjustments based on Durbin Amendment regulations.
- Unless we continue to learn and master our craft, our sales practices may be our own worst enemy.

It is easy to see the importance of gaining street wisdom, as opportunities will be greater this year. I look forward to the next 12 months and sharing how we can all become more streetwise. It's going to be an exciting ride. ☑

Jeff Fortney is Vice President, ISO Channel Management with Clearent LLC. He has more than 17 years' experience in the payments industry. Contact him at jeff@clearent.com or 972-618-7340. To learn about how Clearent can help you grow faster and go further, visit www.clearent.com.



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By Paul Hunter

Sterling Payment Technologies

For the past 10 years or so, while larger merchants have been taking advantage of the benefits of complex integrated payment systems, most small to midsize merchants have been limited by the electronic cash registers (ECRs) they've purchased off the shelf at big-box retailers.

But now, thanks to wider acceptance and the declining price of electronic cash register technology, smaller companies can afford integrated payment solutions and enjoy the business intelligence of more sophisticated systems.

This shift is advantageous for smaller merchants, but it has created a challenge for some ISOs. "We were selling terminals but a lot of our competitors were giving terminals to merchants when they signed up for credit card service," said Hiram Hernandez of First Capital Payments in Rochester, N.Y. "It was getting harder for us to sell terminals when our competitors were giving them away."

First Capital Payments was not the only ISO to feel the pinch. "When POS resellers started selling credit cards, we lost revenue sources for selling equipment," said Darrell Story, Office President of My Credit Card Agent in Killeen, Texas. "In the span of about six months, we lost 120 accounts to resellers."

Adapting to the times

To adapt to this new landscape, First Capital Payments, My Credit Card Agent and other ISOs have become authorized POS resellers or have purchased POS businesses so they can provide integrated payment solutions to merchants, along with equipment and support.

"We had to find a different way to approach merchants," Hernandez said. "Offering integrated payments allows us to enhance the conversation. Instead of just discussing terminals, we can now talk about things like how to control inventory, reduce over-ordering, and decrease theft and fraud."

There are two major benefits to ISOs and merchant level salespeople (MLs) who add integrated payments to their businesses. First, this approach creates new recurring revenue streams while adding more product payment types.

For Jerry Faith, co-owner and Chief Operating Officer of ISO Transpay Solutions in Louisville, Ky., purchasing a company that offered POS systems created valuable new revenue streams. "We are selling equipment and hard-

ware as top-line revenue now," Faith said. "And we are adding programming, maintenance, service, and paper for the POS systems, and then the credit card processing and gift and loyalty cards."

My Credit Card Agent has enjoyed similar success. "By offering integrated payment solutions, we've brought on other items merchants need, like surveillance, text inserts and Internet," Story said. "We've also added billable services in providing regular service to the registers."

Second, this approach battles customer attrition. Attrition is one of the biggest costs for ISOs and MLs. One way to help merchants succeed and offer value is not to drive the price down, but to continuously provide solutions. "POS systems save merchants time, which saves them money," Faith said. "By offering integrated solutions, we've become a consultant in their financials and day-to-day operations."

J.R. Studle of South East Card Services Inc. in Pompano Beach, Fla., is an ISO who became an ECR reseller in order to "stymie" the competition. "Most merchants in Miami get visited by salespeople almost daily," Studle said. "Many of our competitors doing the cold-calling only know how to claim they have lower rates."

They see the register and integrated solutions we've provided, and they don't know how to offer anything better. The register is a means to an end – the integration itself is what keeps merchants wedded to us."

Successfully adding integrated payments

ISOs and MLs who are becoming authorized POS resellers are concentrating on the biggest market segment of merchants with an ECR need – those who now are essentially using calculators on top of cash drawers with older, stand-beside credit card terminals.

"You have to recognize you're not going to easily take business from an integrated system," Studle said. "You do

What are integrated payment solutions?

Integrated payment solutions offer tools for integrating payment processing and related services – check verification, for example – with such other business functions as customer relationship management and accounting. This type of integration can reduce errors, save merchants time and money, and provide them a better overall picture of their businesses.

need to concentrate on the less sophisticated merchants and explain to them why their current cash registers are costing them money, let them tell you what their problems are, and then consult with them about how an affordable ECR can help."

For ISOs considering becoming authorized POS resellers or purchasing a POS business, consider the following three tips:

1. Find a niche and become an expert.

Rather than taking a "shotgun" marketing approach lacking rhyme or reason, identify merchant niches currently operating unsophisticated cash registers and concentrate efforts there.

For example, Transpay Solutions has recently seen good results by marketing directly to liquor stores.

"Most small liquor stores have small cash registers without the ability to scan," Faith said. "We are able to provide an affordable integrated system that works with equipment they're used to and also provides the ability to scan and have back-office reporting."

ISOs who find a niche and then learn about that industry to better meet those merchants' needs are often the most successful. "It enhances your credibility as a salesperson when you can intelligently discuss the merchant's business," Studle said. "Merchants are more willing to confide in you about their challenges and listen to your advice."

South East Card Services, for instance, targets small restaurants, cafes and fast-food merchants; it also focuses on small Latin supermarkets. Studle and his partner have a good handle on how to package, pursue and set up ECR systems that fit these merchants' unique needs. This also enables them to have more productive conversations with merchants.

2. Learn how to support the products so this line of business can become a profit center.

Because customers are looking for solutions, it is important that ISOs and MLSs seeking to become resellers go through product training to understand exactly how the systems they will be selling can help merchants. Make sure the company backing the product you're selling understands the challenges of the end-user and can help you communicate solutions to your merchants.

"You want to train with someone who knows what the merchants need to know about how the products affect their businesses – getting people through checkout faster, preventing theft, pulling reports at the end of the day," Faith said.

Keep in mind that ISO owners can always hire someone to become the expert on the integrated payment products and to do the programming, training and installation with the merchants. "There is a learning curve on learning new equipment and it can get a little time-consuming, but it's not that hard," Story said.

3. Find a product that combines a register with integrated payments.

"I'd recommend that most ISOs work with products where the initial hard work has already been done," Studle said.

Take advantage of others' research efforts and best practices to maximize effectiveness. Rather than spending countless hours trying to piece together ECRs and integrated payment solutions for small and midsize merchants, ISOs considering becoming resellers should look for products that already combine the two.


"Not having to go to 15 different companies and sorting through thousands of software options to piece together the right mix of equipment and payment products saves a ton of time and money," Story said.

In addition, working with a processor that understands integration trends and has invested in support programs to help get ISOs and MLSs started is likely a smart move.

Changing the game with integrated payments

Smaller merchants can now afford ECRs with the high-tech features that large merchants have been enjoying for years. It's good news for smaller companies, but it changes the game for ISOs and MLSs.

Giving POS systems away to get the processing destroys a valuable revenue stream for payment professionals while lowering the perceived value of their services. It may be a smart move for some ISOs to consider becoming authorized POS resellers or purchasing a POS business so they can provide integrated payment solutions to merchants.

"If some of us don't make this jump in the industry in the next five to 10 years, I don't think you're going to be in the industry, because of integrated payments," Story said. I agree. Do you? 

Paul Hunter is President and Chief Executive Officer of Sterling Payment Technologies, a national company based in Tampa, Fla., offering a complete range of payment processing services to merchants, including credit, debit, fleet, gift card, rewards and loyalty programs, electronic benefit transfer (EBT), and check authorization and acceptance. Contact him at paul.hunter@sterlingpayment.com.

As a PCI compliance role model, how do you measure up?

By Heather Foster

ControlScan

As one of the most widely known proverbs so elegantly states, there's no time like the present. This familiar adage can be applied to a multitude of situations and experiences, none more pressing than the financial industry's current focus on Payment Card Industry (PCI) Data Security Standard (DSS) compliance education and implementation among Level 4 merchants.

Nearly six years after the regulations of the PCI DSS took effect, a high level of discourse continues between Level 4 merchants and the acquirers that serve them regarding the significance of PCI compliance.

With the current state of confusion surrounding PCI compliance among these merchants, ISOs and acquirers, as well as merchant level salespeople (MLs), are being called upon to provide expert opinion and guidance on the necessary steps for fully understanding and appreciating the value PCI DSS can provide to a merchant's business.

As an ISO or acquirer taking on this new role, the need to review your abilities as an expert in PCI compliance is incredibly important. Before you begin evaluating how you measure up as a PCI compliance leader for your merchants, let's review the latest findings on Level 4 merchants and the MLs, ISOs, acquirers and banks serving them.

A 'perfect storm' of complacency

Over the past three years, PCI compliance and security provider ControlScan has conducted a series of extensive surveys aimed at gauging the Level 4 merchant stance on PCI compliance. According to the results of the November 2011 *ControlScan and Merchant Warehouse Level 4 Merchant Survey*, two trends have emerged as the main source of many merchants' insufficient compliance efforts:

1. Small merchants' low awareness of PCI
2. Their apathy toward the potential risk of a data compromise.

Researchers refer to the pair of trends as "a perfect storm of complacency."

According to the results of the 2011 study, while larger Level 4 merchants have begun to take strides to further educate themselves on PCI compliance, the smaller micro-merchants (businesses with fewer than 10 employees)

continue to show signs of minimal to no understanding of the PCI DSS and the potential risk involved in failing to protect their customer data.

While these latest findings do suggest an increase in understanding and implementation within a portion of the Level 4 merchant community, there is still much that can be done to ensure that micro-merchants and the entire sum of Level 4 merchants in question strengthen their PCI compliance aptitude so they can establish the necessary data security measures for their businesses.

Wanted: Level 4 PCI compliance benchmarks

In response to its Level 4 Merchant Survey findings, ControlScan partnered with the Merchant Acquirers' Committee to create the first-ever study of acquirers serving smaller merchants.

This study, entitled *Benchmarking Level 4 Merchant PCI Compliance: The Acquirer's Perspective*, served to benchmark acquirers' experiences and current practices as they assist their merchants in fulfilling the compliance requirements set forth by the PCI DSS.

The January 2012 acquirer study was completed by nearly 150 randomly selected companies with portfolios ranging in size from fewer than 1,000 merchants to more than 50,000. Questions in the survey aimed to identify current PCI program practices within the ISO and acquirer community as well as the tangible benefits from these programs. The study's results served as a useful companion to the small merchant study.

Based on the responses ControlScan and MAC received from the companies surveyed, 94 percent of respondents currently provide a PCI compliance program for the direct benefit of their Level 4 merchants; 61 percent of those programs have been in place for two years or less. This bird's-eye view signifies an overall positive connotation toward PCI compliance from the perspective of the acquirer.

Who are Level 4 merchants?

Under the PCI DSS, Level 4 merchants are those accepting fewer than 20,000 Visa or MasterCard e-commerce transactions per year and all other merchants, regardless of acceptance channel, processing up to 1 million Visa Inc. or MasterCard Worldwide transactions per year.

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Education

Digging deeper into the results of the survey, we uncovered several additional key findings:

- Acquirers with higher compliance rates are those who do more to assist their merchants.
- Processors lead the pack in achieving merchant compliance.
- Fewer acquirers with higher compliance rates experienced data breaches.
- Positive perception of PCI's value has a strong correlation to compliance rates.
- Acquirers need more "touch points" with merchants to improve PCI compliance.
- Noncompliance fees are acquirers' preferred method for driving compliance.
- Acquirers with higher compliance levels use more tools and technologies.
- Outsourcing the PCI program is "in" with acquirers.

While the results of ControlScan's previous merchant study provide confirmation of smaller merchants' apathy and lack of understanding toward PCI compliance, the results of the acquirer study provide ISOs and acquirers with a standard by which to measure their own success in preparing and educating their small merchants on the

importance and the "how to's" of PCI compliance. By reviewing this snapshot of the industry, ISOs and acquirers can benchmark themselves against each key finding to target the specific areas they need to improve upon.

Polishing the apple

Although abiding by the general guideline of attributes drawn from the acquirer study results can serve as a starting point for revitalizing an ISO or acquirer's relationship with its Level 4 merchants, the negative attitudes or lack of understanding most of these merchants hold regarding PCI compliance won't be changed without significant added effort.

Introducing a variety of new techniques into an ISO or acquirer's standing PCI compliance program is the best way to combat merchant negativity and apathy. To aid ISOs and acquirers in moving forward as valued advisers to their merchants, ControlScan and MAC list several suggestions to improve PCI compliance programs, including:

- Positioning PCI as a value
- Educating merchants frequently
- Monitoring PCI program results closely
- Using additional tools and support to help merchants achieve PCI compliance
- Considering emerging technologies such as end-to-end encryption and tokenization
- Taking a balanced approach to driving compliance rather than relying on noncompliance fees alone for a long-term strategy

By implementing the suggestions detailed in this article, ISOs and acquirers can easily solidify their positions as industry experts and further strengthen the relationships they share with their merchants.

While the resources needed to achieve a better understanding and appreciation of PCI compliance are available, some ISOs and acquirers may require the help of outside experts to boost their progress. Regardless, if you are an ISO or acquirer, the time to revisit your PCI compliance program strategies and goals is now.

The annual ControlScan merchant study and the inaugural acquirer study by ControlScan and MAC point to an industry need for ongoing measurement of attitudes and actions toward PCI compliance. ControlScan remains committed to fostering this dialogue, as well as to creating simple means for Level 4 merchants to achieve and maintain PCI compliance. ■

Heather V. Foster is Vice President of Marketing for Atlanta-based ControlScan, a provider of PCI compliance and security solutions that fit the specific needs of small- to mid-sized merchants. She also serves as Vice Chairman on the Education Committee of the Electronic Transactions Association and can be reached at hfoster@controlscan.com.

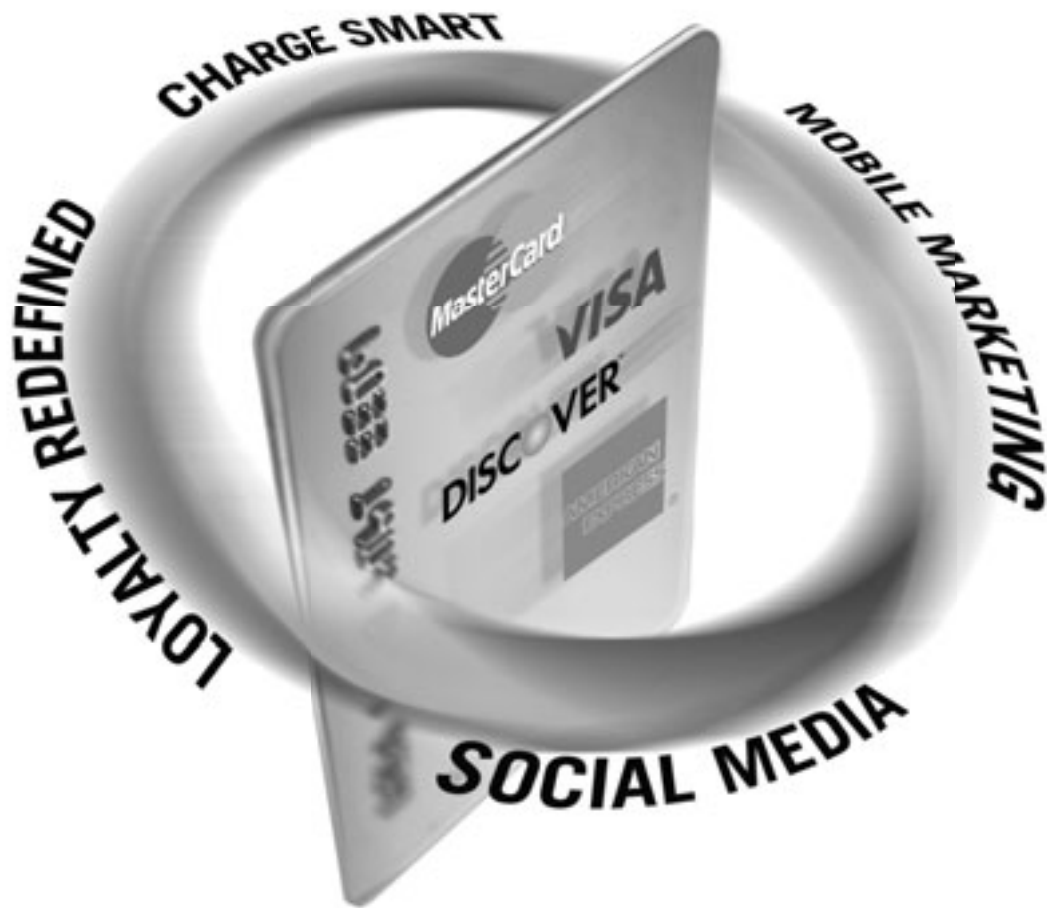
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Use new card fees to build merchant rapport

By Jeffrey Shavitz and Adam Moss

Charge Card Systems Inc.

In October 2011, the payments industry was faced with a major change due to the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. As we discussed in "Durbin – the aftermath" (*The Green Sheet*, Jan. 23, 2012, issue 12:01:02), ISOs wondered what effect the legislation would have on our industry and on their bottom lines.

Would ISOs see profit or attrition? Would they find opportunity? The industry also wondered when the next shoe would drop with regard to new fees. Well, has it dropped?

The Durbin Amendment was intended to protect merchants' bottom lines by reducing the cost of regulated debit cards. For the most part, mission accomplished. However, the amendment was not kind to card-issuing banks, which experienced tremendous loss of revenue.

Apparently, we are now seeing an attempt to recoup that income with the 2012 spring release from the card brands, specifically Visa Inc.

The 2012 release covers many areas, including dispute modifications, an increase on current fee structures, new interchange product categories and fees, revised qualification requirements, and changes in U.S. Visa acquirer fees.

While we don't know if these changes can be attributed to the loss of income from the amendment, by connecting the dots, we see a rationale for yet another increase of fees on merchants.

Some positive changes are taking effect in April 2012. For instance, Visa lowered the network acquirer processing fee on its debit cards by \$0.004, to an amount of \$0.0155 effective April 1, as well as the interchange fees for other card-present exempt debit transactions for a variety of industries.

More fees, little FANFare

The biggest change is in Visa's new Fixed Acquirer Network Fee (FANF), which breaks the program and corresponding billing into three categories:

- Card-present, high-volume MCC (merchant category code) merchants;

- Card-present, all other MCC merchants (fast food restaurant MCC 5814 excluded);
- Card-not-present, merchant aggregators and fast food restaurants.

Merchants that fall under these categories are now assessed a monthly variable fee based on a variety of factors. As an example, card-not-present merchants who process between \$8,000 and \$39,999 are assessed monthly fees of \$15.

A merchant with a mix of card-present and card-not-present transactions may be assessed an additional monthly fee, based on the number of merchant locations. The FANF does not apply to charitable or social service organizations (MCC 8398).

Heading outrage off at the pass

How will you, a merchant level salesperson (MLS), handle phone calls from angry merchants reacting to this news? Explain that this is a brand fee being assessed on our industry by Visa; therefore, everyone will be assessed the same amount. You can even send merchants to www.visa.com to show that your hands are tied.

So, how do you turn this into a positive? Each time you speak with a merchant, you have the opportunity to reinforce your relationship. Remember, success in our industry starts with a firm foundation of trust.

Share with your merchants your frustrations and your thoughts on the origin of this fee. Use this opportunity to remind your merchants how you have looked out for their best interests, perhaps by lowering their rates if you have done so in the past.

As MLSs, we control only our interactions with our merchants. And we know those conversations tend to revolve around their fees and costs. Now may be an opportunity to initiate a conversation with all of your merchants, or maybe just your top clients.

Be proactive by calling them to tell them about the new fee. Our merchants are our lifeline. Let's make sure we use every opportunity to solidify our relationships. 📧

Jeffrey Shavitz is a founder and Adam Moss is the Vice President, National Sales Manager, of Charge Card Systems Inc., a nationwide leader in merchant services offering a full suite of products and 12-hour funding. Shavitz is an active member of The Green Sheet Advisory Board and the First Data ISO Advisory Board; both Jeffrey and Adam are frequent contributing writers to The Green Sheet. They can be reached at jshavitz@chargecardsystems.com or amos@chargecardsystems.com or 888-505-CARD. For additional information on CCS, please visit www.chargecardsystems.com.

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Working with outside marketing experts

By Peggy Bekavac Olson

Strategic Marketing

With the weak economy of the past few years, organizations are now tasked with doing more with less. This is especially true when it comes to marketing. Given today's realities, budgets are cut to the bone and resources have been stretched way too thin, even out of existence.

Nevertheless, marketing still plays an integral role in helping businesses become successful, so many companies are turning to outside marketing experts to tap into their knowledge and resources on an as-needed basis. Some businesses outsource specific marketing functions to supplement the efforts of existing marketing teams; others outsource to compensate for severely limited or nonexistent in-house capabilities.

Assess the offerings

While outsourcing to a marketing firm can bring your

business many strengths and broad capabilities, these qualities tend to come in two distinct flavors: strategic and tactical. And outsourced marketing can be strategic, tactical or both. Strategic marketing occurs at a high level and involves developing strategies and creating plans to do the following:

- Grow revenue
- Launch a new division, product or service
- Enter a new sales channel or market vertical

Strategic marketing involves a careful assessment of internal and external factors, such as company mission; business goals; marketing mix; organizational constraints; market and competitor analysis; and any technical, economic and legal issues likely to impact success.

Tactical marketing executes elements specified in a marketing plan that is based on a defined business strategy. Examples of marketing tactics are creating a brochure or advertisement; planning an event; executing a direct mail, public relations or advertising campaign; and building a website. Marketing tactics can also employ reactive, shoot-from-the-hip activities and initiatives that occur in response to market conditions and unexpected situations.

Many companies outsource activities that are not core to their businesses. For example, developing a brand strategy may be of critical importance; but writing and distributing a press release may not be and, therefore, may be easier to outsource. On a tactical level, many companies strapped for marketing resources can't get work out the door because of a lack of expertise or bandwidth, especially if their marketing teams are departments of one.

Know your needs

Companies intuitively know what's right for their organizations in terms of marketing outsourcing. They know what they're good at and where their weaknesses lie. Outsourcing should be used to bolster marketing weaknesses so that more time can be allocated to maximizing strengths.

For example, when internal marketing resources are good at developing strategies but can't be bothered with the details, it makes sense to outsource the tactical functions. Likewise, when marketing resources are not yet seasoned experts in the payments industry, it is wise to engage them in tactical work and get outside help with strategy development. Further, when marketing resources are good at creative design, but their communications and copywriting skills are lacking, outsourcing those is the way to go.

Before you engage an outside marketing expert, identify

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The Green Sheet archives, www.greensheet.com/emagazine.php?flag=view_archives, contain additional articles on outsourcing. For example:

- In *The how, when, why of recruitment outsourcing*, *The Green Sheet*, Oct. 8, 2008, issue 08:10:01, author Curt Hensley asked, When you need several sales, risk, underwriting, technical support and operations experts to adequately create and support new business, where do you turn?
- In *Outsourcing customer support? Think again*, *The Green Sheet*, May 24, 2010, issue 10:05:02, Nicholas Cucci wrote that many payment companies are wrestling with the idea of outsourcing customer support, because from a cost perspective, it appears to make sense. But is it the right decision?

the most important things from a marketing standpoint that must be done to achieve strategic objectives. Then make a list of all the day-to-day work that simply can't be avoided. Prioritize and outsource what you don't have skills for, time to do or care to do internally. This activity helps focus the search to find the right type of outsourced help.

Choose wisely

Marketing firms come in many varieties: corporate behemoths, boutique industry specialists, and regional or local firms. Each firm has its own unique strengths, such as strategy, research, brand, public relations, Web and interactive media, and events.

The basics of marketing do apply somewhat across all industries. However, because of the complexity of our sphere, choosing an outside marketing partner that understands the unique aspects of the electronic payments industry is prudent. When you don't do this, you spend too much time teaching the partner you've brought on board. Even worse, you may end up with ineffective strategies and tactics that fall far short of the mark. I recommend choosing a firm whose successes closely align with your needs.

The job of a marketing partner to which you can outsource is to provide a rich outsider perspective, fill gaps in capabilities and expertise, and strengthen your overall marketing efforts. The end result should propel your business forward in a very positive and effective way, while helping you do more with less. ☑

Peggy Bekavac Olson founded *Strategic Marketing*, a full-service marketing and communications firm specializing in financial services and electronic payment companies, after serving as Vice President of Marketing and Communications for TSYS. She can be reached at 480-706-0816 or peggyolson@smktg.com. Information about *Strategic Marketing* can be found at www.smktg.com.

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No more contract-signing hurdle

By Steve Norell

US Merchant Services Inc.

Time and time again, merchant level salespeople (MLSs) have heard prospective merchant customers say they do not want to sign long-term contracts – or any contract at all. I'm sure you've heard this, too. And like any good salesperson, the last thing you want is to lose sales because you cannot waive contracts or provide them for shorter terms.

When I hear this from a merchant, I immediately think I will lose the account the minute another MLS promises to save the merchant a lot of money. However, over the years, I have come up with a plethora of responses to counter a merchant's resistance. Here are a few:

1. I am making a commitment to give you good service, better pricing and all of the things that make me better than your current processor. All I am asking is that you make a commitment as well.
2. I am making a financial investment in boarding your account and, therefore, it is necessary to have a contract.
3. I am willing to waive the contract, but then I cannot give you this much better price.
4. Why not try us out for 60 to 90 days without a contract? And if you are unhappy after that time, you can leave us with no penalty.

The list goes on. No single, perfect answer fits all situations.

Inevitable mid-contract hassles

Even if merchants sign agreements with early termination fees (ETFs), we all know that sooner or later they will call and say they are being quoted new and improved rates. And they will ask you to lower yours to match the quote. Yet, what good is a contract if the merchant can ask for it to be altered every time a new pricing scheme comes along?

Some of us have a standard ETF ranging from \$250 to \$500. Some have a liquidated damages fee or a flat monthly fee times the remaining months on the contract.

And, as we all know, some MLSs will pay that ETF to gain a merchant's business regardless of the profitability of the account. Such situations are frustrating for all of us, and no one has really devised a better mouse trap – until now.

An offer the merchant can't refuse


Why shouldn't I try to come up with a win-win scenario? After much thought, I came up with a solution. If a merchant is reluctant to sign an agreement with a set contract period, why not offer the opportunity to process with you for one full year without a contract?

This may sound nonsensical, since the merchant appears to win while you lose. But here is how you win: the merchant must agree that after one year, he or she automatically enters into a 36-month agreement with you. If the merchant terminates during that three-year period, the merchant must pay the ETF.

This makes the merchant feel comfortable since the individual has a full 12 months to either love or hate what you do. And you may get four years of service from the merchant instead of the usual 36.

The important thing to remember is that on the 366th day, the 36-month agreement goes into action – unless, of course, the merchant had notified you on or before the 365th day that he or she was ending the relationship.

I tried this strategy with the first merchant who complained about contracts and an ETF. He loved it, and signed on the spot. The year has not yet run out. But if we do a poor job during the first year, then we haven't earned the contract and don't truly deserve to have him for four years.

We are all looking for a different strategy, and I believe this can work to our advantage. If it works, I may just do this with every merchant we sign. Getting 48 months instead of 36 sounds pretty good to me. How does it sound to you? 

Steve Norell is Director of Sales at US Merchant Services Inc. Based in Port St. Lucie, Fla., he oversees the USMS sales force and maintains the company's bank and processor relationships. You can reach him by email at steven@usmsllc.com or by phone at 772-220-7515.

Even if merchants sign agreements with early termination fees (ETFs), we all know that sooner or later they will call and say they are being quoted new and improved rates. And they will ask you to lower yours to match the quote.



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New Products

Wireless payments at the restaurant table

Product: RAIL

Company: Viableware

As pay-at-the-table restaurant programs gain steam, so do options that eliminate the need for patrons to relinquish credit or debit cards for processing elsewhere in an establishment. New off the launch pad is RAIL, the first product release from Viableware, a provider of restaurant communication solutions led by a veteran team from the restaurant industry in conjunction with the technology team from Synapse Product Development.

RAIL is a patented wireless digital payment folio that has the look and feel of the traditional bill presentment folder used in most restaurants, but unlike the original, RAIL permits guests to self-swipe credit or debit cards at the table. With a touch of a finger, guests can split the bill, auto-calculate tips and direct email receipts, all without the card ever leaving the table. An LED light atop the folder signals to table servers when the bill has been paid.

Being able to streamline the payment process, which RAIL is designed to do, means restaurants can turn tables more quickly, potentially generating more revenue. RAIL also provides a digital platform for third-party advertising and cross-selling. Because it automatically tracks consumer use and tallies reward point incentives, customer loyalty and gift card programs are easily managed, the company stated.

"Maintaining a close relationship with your frequent customers is far easier and more effective with this type of technology at work in the restaurant," said Joseph Snell, co-founder and Chief Executive Officer at Viableware. "Restaurants can now communicate with their patrons in a way never available to them in the past. Presenting the bill can now double as an opportunity to offer each guest a short satisfaction survey, an option to donate to a cause or an invitation to join in a rewards program."


RAIL also opens revenue sharing opportunities, Snell said. "For example, with RAIL in place, a restaurant can market locally with third-party businesses, like a nearby movie theater, to offer guests discount tickets to that evening's show," he noted. "The guest could purchase the tickets directly from the RAIL by swiping their card – and a commission could be earned for the restaurant."

In an industry in which card skimming can be a problem, a system like RAIL, which encrypts card data at the point of swipe and allows the card to remain in the possession of cardholders, looks like a step in the right direction. RAIL

Features of Viableware include:

- Patented payment system utilizes a digital bill folder
- Device encrypts data at point of card swipe
- Software calculates tips and splits tickets automatically
- Platform supports advertising, loyalty and gift card programs
- Program offers reseller opportunities to ISOs



reportedly integrates with existing POS systems, enabling restaurants to accept credit and debit card, near field communication, Europay/MasterCard/Visa chip and PIN, mobile and online payments. 

Viableware

206-516-6100

www.viableware.com

Driving donations online for nonprofits

Product: eSelectPlus with DonorDrive

Company: Moneris Solutions

U.S. charitable donations are expected to reach nearly \$360 billion this year, according to *Atlas of Giving*. And if you factor in the popularity of online fundraising and electronic donations, you have a perfect storm for strategic alliances in a sector that is booming. In February 2012, North American payment processor Moneris Solutions forged such an alliance with Cincinnati-based Global Cloud Ltd.

Through the partnership the Moneris eSelectPlus proprietary payment gateway will be integrated with Global Cloud's DonorDrive online fundraising software solution.

"DonorDrive is a best-in-class product, and Global Cloud is a best-in-class company," said Joe Garza, Senior Vice President, North American Alliances for Moneris Solutions. "We're extremely excited to be working with them. Together we can offer nonprofits unmatched expertise and experience in both payment processing and online fundraising." Founded in 1997 with a mission to "improve lives through

web software and services for nonprofit organizations throughout North America," Global Cloud's online peer-to-peer fundraising, event management and social media outreach software appears to be on track, having already facilitated online fundraising for the American Society for the Prevention of Cruelty to Animals and the Children's Miracle Network.

"For Global Cloud, the decision to partner with Moneris made complete sense," said Paul Ghiz, co-founder and Managing Partner for Global Cloud. "They're one of North America's largest, most reputable payment processors. In addition, they have considerable experience working with the nonprofit community and understand their fundraising and payment processing needs well."

According to both companies, charities and nonprofits of all types are realizing the benefits of accepting electronic payments and donations, which include improved cash-flow, larger donations and the ability to set up recurring donations. The partnership also gives organizations the ability to use a single solution to manage all aspects of online fundraising campaigns rather than having to coordinate multiple vendors.

DonorDrive's customer resource management system

Features of eSelectPlus with DonorDrive include:

- Integrates secure payment gateway with donor software
- Targets nonprofit organizations in the United States and Canada
- Serves an unlimited number of users and nonprofit events
- Provides real-time analytics with actionable reporting
- Integrates with social media and existing third-party system

can be integrated with a nonprofit's existing software to track such items as contact log, donor history, transactions, funds allocation, relationships, email and notes. DonorDrive also executes text message and email alerts and can manage donations offline. Recurring donations, 48-hour funding, quick account setup and stringent data security are among the joint benefits being touted by Moneris and Global Cloud. ■

Moneris Solutions

866-423-8475
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Boost Your Biz Fulfilling brand promise

Do you know whether your business delivers on its promises? One way to find out is to examine your customer service efforts. From the disaffected sales associate behind the counter to the bored-to-death agent on the other end of the phone, lackadaisical, even insensitive interactions have disappointed many a customer, undoing years of planning and hard work.

Less than stellar customer service undermines an enterprise's brand promise cultivated through marketing and advertising. For example, a national insurance company blankets the country with television ads that showcase helpful, friendly sales associates there for its customers 24/7. However, the reality is far different, with long call center wait times and indifferent in-person service.

When messaging and reality do not align, consumers dismiss a company's marketing as a string of empty declarations and false promises. When this occurs, efforts to build customer satisfaction and brand loyalty are dealt a critical blow.

On the same page, better results

The solution to this problem involves training. Call center staff may not realize the importance of their role, even

though they often represent consumers' first live interaction with a company. Interactions with customer service reps should leave customers feeling positive and reassured that the company will deliver on what it promises.

Customer service associates should understand that what they say to customers over the phone, and how they say it, is critical to reinforcing the fundamentals of the business. So be sure you effectively communicate to your associates what your company promises via marketing and advertising, as well as what differentiates your company from the competition.

Knowing what your business promises will help your associates build personae that reflect your company's consumer-directed messaging. They will also better understand where they fit into your company's overall objectives and what is expected of them in attaining them. In effect, associates will learn to project and solidify your company's vision.

Offering top-notch customer service will make your company look that much better in comparison to so many others that offer merely mediocre service. And if your business messages instill high expectations in consumers, associates who are taught to strive for excellence will be more able to deliver what customers expect. ■

DateBook

Visit www.greensheet.com/datebook.php for more events and a year-at-a-glance event chart.



NACHA - The Electronic Payments Association

PAYMENTS 2012

Highlights: NACHA's educational conference for payment professionals promises to deliver the latest research, industry pilot results, insights, trends and forecasts presented by expert payments practitioners from around the globe. Green Dot Corp. Chairman and CEO Steve Streit will open the conference by addressing the opportunities and challenges of balancing innovation and risk in the evolving payments environment.

The conference agenda features workshops and over 130 sessions divided into the following eight tracks: Automated Clearing House, The Payments Biz, Corporate Payments Solutions, Risk and Compliance, Global Focus, Card Solutions, Healthcare Opportunities, and Mobile Banking and Payments.

When: April 29 – May 2, 2012

Where: Baltimore Convention Center, Baltimore

Registration: www.nacha.org/payments_registration



Smart Card Alliance & NFC Forum

NFC Solutions Summit 2012

Highlights: This jointly hosted conference will bring together leaders from financial services, software and technology, payment processing, and retail services, as well as industry analysts for an interactive forum on issues and technologies shaping near field communication (NFC) globally. On May 21, three workshops will precede the conference: NFC Base Camp, NFC Technology and Application Developers Workshop, and CSCIP Payments Smart Card Training and Certification Exam Prep.

Opening day (May 22) keynote sessions will address global markets for NFC as well as security issues. Day two will feature panel discussions divided into two distinct paths: NFC Technology Conference Track and NFC Business Solutions Conference Track. For the final day's NFC open sessions, facilitators will work with topics selected by conference participants. The day will also offer peer-to-peer learning.

When: May 22 – 24, 2012

Where: Hyatt Regency San Francisco Airport, Burlingame, Calif.

Registration:

www.cvent.com/events/nfc-solutions-summit-2012/event-summary-428ceac64a914cfaa4b34ae53444cf08.aspx



Northeast Acquirers Association

2012 Summer Seminar & Outing

Highlights: Ideal for ISOs and MLSs who want to interact with other payment pros and keep abreast of the latest developments in payments, this event will include presentations by industry experts, tabletop product exhibits from 65 vendors, and appealing prizes and giveaways from event sponsors. For those who wish to network while enjoying the outdoors, the NEAA is also arranging a golf scramble on Tues., June 5.

The show has three levels of participation: attendee, which includes financial institutions, ISOs or individuals that primarily sell acquiring related services directly to the merchant community; vendor, including companies or individuals that sell or promote products or their company's services to acquirers (attendees) for resale to merchants; and industry expert, comprising consulting or investment experts and senior management of ISOs who are not otherwise exhibiting vendors. The show is unable to accommodate roaming vendors.

When: June 5 – 6, 2012

Where: Crystal Springs Resort, Hamburg, N.J.

Registration: <http://northeastacquirers.com/event.htm>

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- Sir Walter Scott

Don't let hot leads slip away

The art of follow through is often what separates the record breakers from the ordinary sales pack. Simply put, having a program for clinching qualified tradeshow leads greatly increases your odds of landing new merchant accounts.

Do you have a follow-up plan for handling sales leads from the Electronic Transactions Association's Annual Meeting & Expo or from the regional acquirers shows you may have already attended or plan to attend this year? If your answer is no, you're not alone. Tradeshow industry experts estimated up to 80 percent of all tradeshow leads are not followed up. And the Sales Lead Management Association found 58 percent of the companies it surveyed did not qualify their sales leads.

While these statistics are staggering, they represent businesses in general. Because sales are so integral to what ISOs and merchant level salespeople do, many payment professionals likely fit into the 20 percent who follow up on leads and are among the 42 percent who qualify leads for their sales teams. However, according to The Trade Show Bureau, 43 percent of exhibitors that issue post-show lead fulfillment materials fail to send out information until after prospects have made a final buying decision.

Effective pursuit of tradeshow leads

The following six tips on managing tradeshow leads can help ensure this does not happen to you.

1. Be sure all company reps attending tradeshow, as well as support personnel in the office, buy into the lead follow-up program and know what their roles are in making it a success.
2. Create a lead scorecard that can be used by attendees to score prospects, based on sales-driven criteria, to mark which products and services prospects are interested in and to record any follow-up actions promised by sales reps at the show. Be sure attendees take these scorecards with them to their appointed shows.

Scoring prospects can be as simple as a 1, 2, 3 rating, with 1 indicating interest in buying now, 2 showing future buyers, and 3 representing no interest or involvement in buying.

Other criteria for the first two categories should include whether the prospect is a decision maker, the size of their company, plus any details which might match prospects with future scheduled product releases.

3. Instruct tradeshow attendees to transfer lead scorecard information electronically (or via a shipping service if electronic transmission – email, fax, website form or cloud-based service – is not available) to designated office personnel for processing.
4. Send a prepared email message to all qualified leads within 48 hours of each show. Separate messages can be created based on scorecard indicators with the requisite product and agreement information prepared in advance for attachment or mailing, as desired.
5. Prioritize follow-up calls based on scorecard data and the queries received from your initial post-show email campaign. And continue to feed your short- and long-term lead prospects according to plan.
6. After each tradeshow, schedule a meeting with all stakeholders in your office to assess the show based on the quality of leads generated and overall response to your company's offerings. This will help determine what areas need adjustment and whether the show merits repeating.

The secret to managing all sales leads is swift and appropriate follow-up. In time, your well orchestrated follow-up system will net more sales and allow fewer leads to slip away.

Good Selling!SM



Paul H. Green, President and CEO

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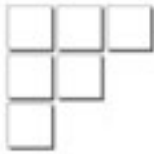
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