



# The Green Sheet

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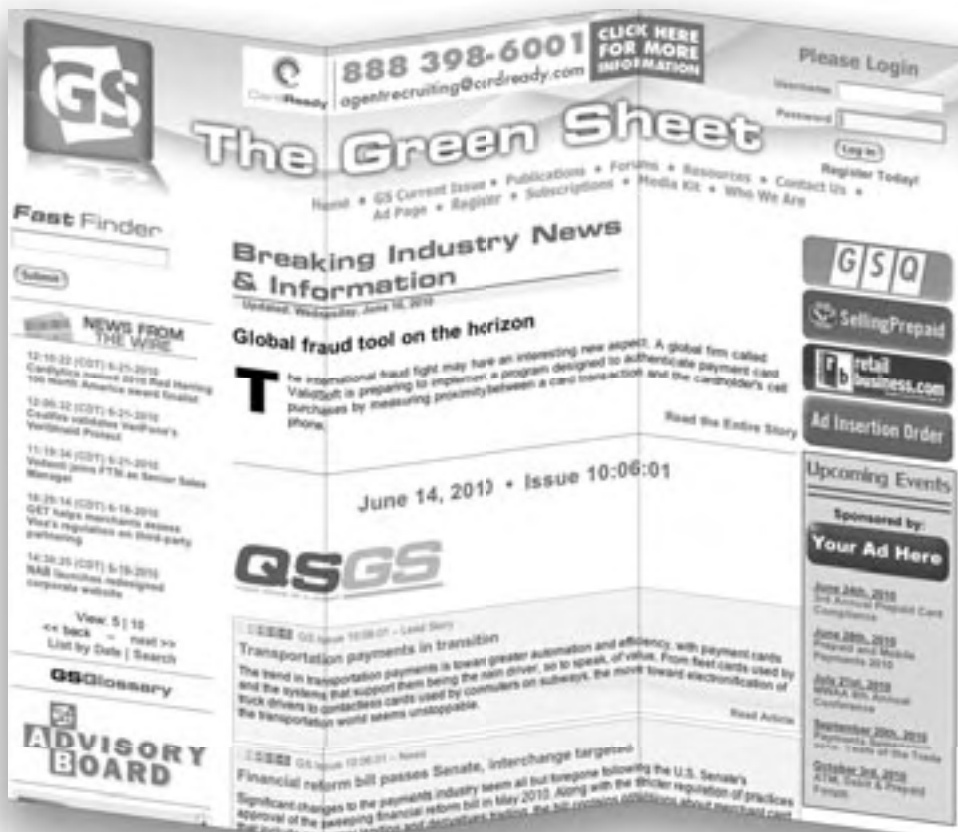
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June 28, 2010 • Issue 10:06:02

## A roadmap to GS Online



Since 1983, The Green Sheet Inc. has been dedicated to the education and success of ISOs and merchant level salespeople (MLSs). To further our mission, we have built a vibrant Web presence over the past decade. Dubbed GS Online, our website now averages more than 140,000 distinct visits and 4 million hits each month.

In addition, for five consecutive years, *The Green Sheet* has been recognized by the highly regarded Annual Awards for Publication Excellence (APEX), earning 38 APEX awards for excellence in magazine and website content and design.

By publishing both in print and online, we provide ISOs and MLSs instant access to the latest developments in the payments industry. People turn to GS Online for relevant breaking news, interaction in peer forums, research, professional education, and to browse the pages of *The Green Sheet* and *GSQ*.

To help you gain the most from your online experience, we created the following guide, which describes useful tools and resources found only on our website.

Continued on page 3

See GS Online on page 55

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**Notable Quote**

**There is no question that margins have changed in the payments industry; the only question is whether this is temporary or permanent, and what the best way is to restore profitability for ISOs and merchant level salespeople.**

**See story on page 26**



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# Forum

## Beware government intervention

Sometime in the very near future, the card industry needs to urge that the acquirers, the issuers, Visa Inc., and MasterCard Worldwide will negotiate and control the interchange issue, or it will hurt all parties substantially. Please leave the legislative bodies out of this!

Interchange is the only revenue stream for issuers in allowing debit cards to be used at the point of sale, and if that stops, a very large chunk of cardholders will not be available to visit the merchant base. ... Legislators simply support the thing that appears to be popular and presently that is "bashing banks."

Bill Shaw  
First Citizens Bank

Bill,

*Thank you for sharing your thoughts. The escalating interest and actions on the part of both state and federal lawmakers to legislate interchange, including the so-called Durbin Amendment currently under consideration by the U.S. Congress, are of great concern to our readers.*

*We hope that all who have a stake in this issue make their voices heard in the halls of governments across the land.*

Editor

## Call us, write us

Would you like us to cover a particular topic? Is there someone you consider an industry leader? Did you like or dislike a recent article in *The Green Sheet*? What do you think of our latest GSQ? E-mail your comments and feedback to [greensheet@greensheet.com](mailto:greensheet@greensheet.com) or call us at 800-757-4441.



## From GS Online's MLS Forum

### The premier online network for payment pros

GS Online's MLS Forum thread titled "Does Tricky Dicky Durbin want the Feds to seize Visa/MC?" has been lively since forum member **ZAYETS** started it on June 10, 2010. So lively, in fact, that it has sparked a grassroots call for a "National Cash Only Day" over Labor Day weekend, Sept. 4 to 6.

The idea evolved over the course of a discussion about Sen. Durbin's motives for proposing the Federal Reserve be given authority to set interchange for debit transactions, how legislation could lead to a decrease in retailers' sales because consumers would end up with fewer, more costly payment options as a result of their having to pay the merchants' share of the cost of bankcard acceptance, and the need to emphasize the great value merchants receive from accepting electronic payments.

**CREDITCARDMN** got the activist ball rolling by reporting that sometimes he pays cash for gas inside at rush hour. "I am timing how long I tie up that pump, not allowing another customer to use it, and how much time of the cashier," he wrote. "Figuring a labor cost of about \$11.32 per hour, which is about what a \$9.50 an hour employee costs, I am tracking what the extra expense is for me to buy gas. On average it takes an extra 4 minutes and 20 seconds. This makes the cost per minute about 19 cents, or about 82 cents additional labor cost, not counting the lost sales in a rush hour time of about six transactions."

"Maybe those lobbyists at the ETA and NRF would find it very interesting to see your numbers," **CLEARENT** replied. Soon, talk turned to possible actions forum members could take. Thus the cash-only plan was hatched.

**FASTTRANSACT** volunteered to get things moving on Facebook. "OK, let's plan this out," she wrote. "It will have to be through viral marketing. We get on the social networks like Facebook and make a 'cause' for National Pay Everything by Cash Day. Then we all 'friend' it and send it out to our 'friends' list. They join the cause. What we need is a clear synopsis as to why we want everyone to stop using their credit and debit cards for one day or week. It would be a great way for all consumers to send a message to the merchants and the government about the power we actually have."

Will this fly? It may be up to you. To get involved, visit [www.causes.com/causes/495235/about](http://www.causes.com/causes/495235/about).

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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

## A roadmap to GS online

Since 1983, The Green Sheet Inc. has been dedicated to the education and success of ISOs and merchant level salespeople (MLSs). To further our mission, we have built a vibrant Web presence over the past decade. Here is a comprehensive guide to that website, replete with pages and links – and perhaps a few portals unknown even to many longtime visitors.

Feature

34

## Perspective on the 'gift' economy

There is no denying the importance of gift card programs to merchants. Retailers need to realize that a satisfied customer is what drives their bottom line, and they should develop programs that keep their best customers coming back. In this regard, gift cards can be an indispensable tool.

View

24

## Could the future of micropayments be Square?

Dressed in jeans and a sweater, a rather large tattoo peeking out from pushed-up sleeves, Twitter co-founder Jack Dorsey didn't look the part of keynote speaker at a recent banking conference. He seemed to fit the bill of a Millennial, however – those 20- to 30-somethings who came of age with the Internet. And these folks are designing the payment systems of the future.

News

42

## The PA DSS deadline looms

The July 1, 2010, deadline for businesses to comply with the Payment Application Data Security Standard is looming, and experts say its importance should not be underestimated. What will happen to those who aren't compliant when the deadline passes? And are ISOs doing enough to ensure their merchants are using the most secure equipment available?

View

26

## Margin compression: What's goin' on?

The music business may exemplify the trend of margin compression. The traditional business model of major labels, producers and distributors has been permanently disrupted. Likewise, margins have changed in payments – but it's uncertain whether this is temporary or permanent, and what the best way is to restore profitability for ISOs and MLSs.

News

42

## Global anti-fraud tool on the horizon

A global firm is preparing to implement a program that authenticates payment card purchases by measuring proximity between a card transaction and the cardholder's cell phone. Observers say it's an effective way to curtail fraud, but what does the system do to protect consumer privacy?



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News

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### First Data charts the rise of FaaS

A new First Data Corp. white paper indicates that cyber-criminals have adopted their own form of software as a service (SaaS). It's called fraud as a service (FaaS), which uses the same online infrastructure as SaaS to perpetrate fraud schemes. Central to FaaS are online fraud forums that offer, among other things, tutorials for aspiring fraudsters.

Feature

48

### Guiding merchants toward honest processing partners

Businesses can sink or swim on the strength of their processing partnerships. In *Navigating Through the Risks of Credit Card Processing*, Bill Pirtle details the pitfalls merchants face in selecting processors and signing agreements. The book is both a guide for merchants and a hymn to MLSs who provide merchant services in an honest and transparent way.

Education

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### Street Smarts<sup>SM</sup>: What does a merchant get for a PCI fee? - Part 2

This is the second of two articles on the increasingly common Payment Card Industry (PCI) Data Security Standard (DSS) compliance fee. What does the fee cover? Is it necessary? What do merchants get in return? Opinions on these and other questions vary, as this article shows.

Education

66

### Beyond professional courtesy

The term "professional courtesy" can be traced back to the times of Hippocrates, when physicians treated each other's families at no charge. The practice has evolved over the centuries to embrace a broader definition of special favors. What does professional courtesy in the payments industry entail?

## Buying or Selling a Portfolio or Company?

Jaffe closed more than \$750 million in M & A transactions over the last year.

### Representative Transactions:



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Counsel to E-onlinedata



Merger with and Sale to  
Pace Payment Systems, Inc.

Counsel to  
Century Bankcard Services



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Merchant Portfolio of an  
Independent Sales  
Organization

Counsel to Capital Payments



Merchant Portfolio  
Sale to Elavon, Inc.

Counsel to  
MB Financial Bank



Asset Sale  
to Yapstone, Inc.

Counsel to Paymerica



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Education

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### **Succeeding at PCI compliance - Part 2: Executing an effective pilot program**

Choosing a trusted PCI DSS compliance vendor is an integral part of successfully rolling out a good PCI program for your merchants. But how does one make the decision? For one, it is important to run a pilot program that puts all the promises of a vendor to the test.

Education

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### **Eight keys to a great first impression**

Research indicates 90 percent of people will form an opinion about you within the first four minutes of meeting you, and 60 to 80 percent of that opinion will be based on non-verbal criteria. Here is a guide to making a good impression by speaking the right body language.

Education

72

### **Training to go global**

Implementation of a top-notch training strategy is critical to staying competitive during challenging economic times. Training plays a vital role in providing the skills and knowledge needed to stay ahead of the pack. When it comes to global issues, training is paramount because there is a constant stream of new and different information.

Inspiration

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### **Dig for gold, revisit your portfolio**

When you hear the term "gold mine," you might think of discovering something new, like buried treasure. But as far as your business is concerned, there's a gold mine that you've tapped into before and should revisit often to reap even greater benefits. This article explores why reaching out to your existing customer base is at least as important as seeking to expand it.

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# IndustryUpdate

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## NEWS

### Opposition to Durbin Amendment mounts

Organizations are lining up against the Card Swipe Fee Amendment to the financial services regulatory bill now moving through Congress. Sponsored by Sen. Dick Durbin, D-Ill., the amendment attempts to apply a regulatory framework around debit card payment acceptance at the POS.

According to consulting firm **Mercator Advisory Group**, the amendment "calls for regulations that may have unintended and undesired effects on the financial services industry, reaching far beyond controlling debit card fees and negatively disrupting a complex payment ecosystem."

Mercator President and Chief Executive Officer Robert Misasi stated, "We believe strongly that caution is the watchword when considering this regulation." The firm called on Congress to withdraw the amendment from consideration at this time. "No action should be taken by Congress until a thorough study is conducted that includes regulators, credit union and community bank advocacy groups, industry stakeholders, academic experts and analysts," Misasi stated.

Mercator released a free report assessing the potential impact of the amendment on the payments industry. For further information, contact Brent Watters at 781-419-1709 or [bwatters@mercatoradvisorygroup.com](mailto:bwatters@mercatoradvisorygroup.com).

Adding his voice to opposition to the amendment, Rod Staatz, President and CEO of the Maryland-based **SECU** credit union, suggests it is flawed. "While the amendment is written to protect financial institutions with less than \$10 billion in assets, the fact is that no issuer

is going to incur the cost of developing two networks," he wrote.

### PCI Council sets community meeting dates

The **PCI Security Standards Council (PCI SSC)** set the dates for its 2010 community meetings, to be held in the United States and Europe. The first will take place Sept. 21 to 23 at the Buena Vista Palace in Orlando, Fla. A second meeting will follow from Oct. 18 to 20 at the Hotel Fira Palace in Barcelona, Spain.

The annual forums give participating organizations and members of the assessment community a chance to engage with the council on Payment Card Industry (PCI) standards. Attendees participate in interactive discussions of the newest versions of the PCI Data Security Standard (PCI DSS) and the Payment Application DSS, as well as the recently released PIN Transaction Security requirements.

Attendees will get a first look at changes to the standards and provide feedback to council management, as well as have the opportunity to speak with representatives of the card brands at informal sessions. This year's agenda includes presentations on payment card security, law enforcement and current data breach investigations.

Members of all special interest groups will present updates at the meetings. Special sessions will be held for Qualified Security Assessors (QSAs) and Approved Scanning Vendors. Registration information can be found at [www.pcisecuritystandards.org/community\\_meeting\\_2010/orlando/registration.html](http://www.pcisecuritystandards.org/community_meeting_2010/orlando/registration.html).

### Patent suit against card brands will go forward

The U.S. District Court on June 7, 2010, denied a motion

BOTTOM  
LINES

HEADLINES  
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WORLD

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- Total retail sales fell 1.2 percent to \$362.5 billion in May 2010, compared with April's upwardly revised 0.6 percent increase, according to the **U.S. Department of Commerce**. Led by a 9.3 percent drop in building material and supplies, it marked the first month-over-month decline since September 2009. On a positive note, retail sales were up 6.9 percent over May 2009.
- The **American Express Co. Spending & Saving Tracker** reported that 51 percent of Americans plan to travel this summer, with 89 percent expected to travel to domestic locations. The most popular U.S. regions cited by 60 percent of those surveyed will be the Northeast and South. Sixty-seven percent plan to spend an average \$1,000 per person for travel.
- According to a recent **National Retail Federation** survey conducted by **BIGResearch**, online shoppers planned to spend a combined average of \$153 for Father's Day, 62 percent more than the average outlay anticipated by people shopping at traditional stores.

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## IndustryUpdate

to dismiss a lawsuit filed in March 2010 by **SmartMetric Inc.** against **Visa Inc.** and **MasterCard Worldwide** for alleged patent infringement.

The suit, filed in the Central District of California, alleges that Visa's payWave and MasterCard's PayPass technology infringe SmartMetric's 2004 patent for a system for automatic connection to a network.

"We believe and allege in our lawsuit that both Visa and MasterCard are infringing on our U.S. patent ... by selling, offering to sell and using contactless card systems," SmartMetric CEO Colin Hendrick stated in early June when the company amended its complaint.

## ANNOUNCEMENTS

### Incentives speed merchant PCI validation at Avid

Michigan processor **Avid Payment Solutions** revealed that 62 percent of merchants in its portfolio had validated their PCI compliance within six months after Avid launched its PCI DSS compliance program. The results were achieved through a combination of incentives and **SecurityMetrics'** PCI site certification services. By April 2010, another 22 percent had enrolled, of which most

had achieved partial validation, Avid said.

### Industry vets launch Eureka Payments

Three payments industry veterans launched **Eureka Payments LLC**. The California-based merchant-services firm, which will target direct marketers and wireless merchants, was founded by Ken Musante, Scott Bartlett and Steve Kimberling. Musante, former President of Humboldt Merchant Services and Chief Sales Officer at Moneris Solutions Inc., is President.

Eureka will assist clients "in maintaining a positive relationship with their processor and thereby minimize their total payment processing costs," Musante stated. Eureka Payments will utilize and outsource processing services through a small number of acquirers, depending upon the needs of the merchant.

### Celent names Fifth Third its model bank

**Fifth Third Bancorp** won Celent's 2010 Model Bank award for transaction processing. The award was based on Fifth Third's Remote Currency Manager, which automates the cash-management process for retailers' cash transactions as part of an integrated receivables software suite.

### Global Payments divests money transfer businesses

**Global Payments Inc.** sold its DolEx and Europhil money-transfer businesses to **Palladium Equity Partners LLC**. Palladium reportedly paid \$85 million combined for the properties. Global Payments paid \$190 million for DolEx in 2003 and acquired Europhil properties in late 2004 for an undisclosed sum, according to previous reports.

### Hypercom achieves PCI PTS 2.1 certification

**Hypercom Corp.** reported that both its Optimum T4200-2.0 countertop and M4200-2.0 mobile product lines have achieved PCI PTS (PIN Transaction Security) 2.1 certification. The PCI PTS was formerly called the PCI PIN Entry Device (PED) security standard.

According to Hypercom, its countertop and mobile terminal product family is the first among the top payments industry equipment providers' offerings to achieve this rigorous security standard. A founding member of the Secure POS Vendor Alliance, the company said it was also the first to introduce an industry standards-based remote key injection product and the first electronic payment solutions provider to implement end-to-end card data encryption.

### SPVA issues E2E encryption guidelines

The **SPVA** released guidelines for end-to-end encryp-



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## IndustryUpdate

tion security related to data in payment card reading devices. Targeted at POS device vendors, the framework promotes the adoption of best practices. The guidelines address data to be encrypted during transmission, key management, physical and logistical security of the tamper-resistant security module and components, and encryption monitoring and management systems requirements.

### TSG clients seeking portfolios

The **Strawhecker Group** said it has multiple clients looking for properties or joint ventures in the payments arena. The clients are looking for potential acquisitions and joint ventures of portfolios and properties ranging in value from \$1 million to \$75 million.

### UN Credit Union issues EMV chip cards in U.S.

The **United Nations Federal Credit Union** began issuing contact EMV chip cards to its elite cardholders, it announced at the recent annual conference of the Smart Card Alliance. Reportedly the first financial institution in the United States to take this step, the credit union intends to evolve to dual contact/contactless technology to meet the needs of customers who travel internationally.

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## PARTNERSHIPS

### Anthology chooses Element

**Anthology Development LLC**, a leading bookstore-management software provider, partnered with **Element Payment Services Inc.** Element will provide PCI DSS-compliant processing to Anthology's customers. Anthology has over 1,500 installations at booksellers worldwide.

### Capital Payments contracts with Trustwave

**Capital Payments LLC** adopted a PCI DSS compliance validation system from **Trustwave**, a provider of information security software and services. Capital merchants will use Trustwave's compliance validation portal to complete PCI self-assessment questionnaires and schedule required scans.

### Elavon signs encryption services

**Elavon Inc.**, a subsidiary of U.S. Bancorp, chose two new encryption service vendors for its acquiring services and gateway. The processor signed a global agreement for security services from **Semtek Innovative Solutions Corp.** Elavon's host system will deploy Semtek's Cipher Decryption Service, among other encryption-management services.

Elavon also chose **Voltage Security Inc.**'s SecureData, which includes a format-preservation capability, as another end-to-end encryption option for its payment gateway. Also, Elavon developed advanced tokenization that will allow merchants to securely access card data for future transactions.

### Kddi selects Gemalto for NFC trial

Japan's **Kddi Corp.** selected digital security provider **Gemalto NV** to provide the User Identity Module cards and Trusted Service Management solution for Kddi's upcoming near field communication (NFC) trial program. Through December 2010, participants in the pilot can experience such NFC services as mobile payments, transportation services, electronic driver's licenses, electronic ticketing and information acquisition from smart posters. Automobile manufacturers, airline companies and cinema operators are participating in the trial.

### Deli chain chooses BHI's SecureConnect

**McAlister's Deli** chose SecureConnect from **BHI Advanced Internet Inc.** to implement a PCI compliance system at both its corporate and franchise restaurants. With 290 restaurants in 23 states, McAlister's Deli had originally used SecureConnect for firewall and Wi-Fi hotspot services only. Corporate stores will adopt the system first, while the company educates franchisees on the need to achieve PCI compliance.

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## Industry Update

### Taxi payments suppliers pick Hypercom

Financial institution **Suncorp** and taxi software developer **Live TaxiEpay** selected **Hypercom Corp.**'s Optimum M4230 mobile payment terminals to create a taxi payments vertical. The terminals are being rolled out to 3,500 taxis in Sydney and Melbourne, Australia. Live TaxiEpay is a subsidiary of The Live Group PLC. Hypercom said the Optimum M4230-2.0, which provides general packet radio service (GPRS) with dial back-up, is one of several Hypercom countertop and mobile terminals to achieve PCI PTS 2.1 certification – the payment security standard formerly called PCI PED.

### TransFirst partners with MindBody

Acquirer **TransFirst** has teamed with **MindBody Inc.**, which sells business-management software to the wellness industry. MindBody will offer TransFirst's processing services to its fitness studio clients. The software specialist is said to have nearly 10,000 clients in 60 countries.

## ACQUISITIONS

### Jack Henry completes iPay purchase

**Jack Henry & Associates Inc.** closed the acquisition of

**iPay Technologies** for approximately \$300 million in cash. The acquisition gives Jack Henry iPay's turnkey online bill pay services, which serve 3,600 banks and credit unions.

### Muscato Group solidifies global strategy

**Muscato Group Inc.** acquired two financial payment services companies, **M2 Financial Ltd.** and **M2 Europe Ltd.** Muscato Group said the acquisitions solidify the company's strategy for Europe, the Mideast, Africa and Latin America by adding a portfolio of clients. It also reportedly strengthens Muscato's control over relationships with financial institutions for which the company provides its technology and processing platform for their global financial transaction services. The acquisitions include key processing certifications with Visa, MasterCard and JCB International Co. Ltd.

### NAB buys Point and Pay

**North American Bancard LLC** expanded into the government sector with the acquisition of **Point and Pay** from **Vesta Corp.** NAB said the acquisition will enable the ISO to better target government agencies such as utilities, schools, courts, tax collection and motor vehicle departments. Point and Pay's software enables agencies to convert from paper-based processing to automated electronic payment and remittance processes.

### UL picks up RFI Global

**Underwriters Laboratories Inc.** acquired payment technology certification expert **RFI Global Services Ltd.** RFI Global will be integrated into UL's verification services business, which provides performance testing and auditing for product manufacturers and retailers worldwide. RFI Global tests and certifies new payment devices, including contactless cards and terminals and mobile payment systems

## APPOINTMENTS

### Baumann joins Aurum Bankcard

**Aurum Bankcard LLC** named **Bret Baumann** its President. Before joining the company, Baumann was Senior Vice President at **TriSource Solutions** and Vice President at **WAY Systems Inc.** He will lead Aurum Bankcard's recruitment of ISOs and merchant level salespeople.

### Neovia names new CFO

**Neovia Financial PLC** appointed **Keith Butcher** to the post of Chief Financial Officer. Previously, he was Financial Director at **Datacash Group PLC.**

### Chandnani named Obopay President

Mobile payment provider **Obopay Inc.** promoted



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**Deepak Chandnani** to the newly created position of President.

Chandnani, who joined the company in 2008 and was responsible for operations in India, Africa and Asia, will supervise global operations across all markets and geographies from Obopay's office in Mumbai, India.

### NAB taps Connell for new acquisition

Concurrent to its purchase of Point and Pay, NAB appointed **Kevin Connell** as Point and Pay's President.

Connell was previously Senior Vice President for Sales and Marketing at Official Payments Corp. and held various senior positions at Discover Financial Services. NAB said that, as the newly appointed President, Connell will oversee all aspects of Point and Pay's day-to-day operations.

### Huebner joins BHI

BHI Advanced Internet Inc., a managed security services provider, hired **Blake Huebner** as Director of Information Security. Previously, Huebner was a PCI team leader and QSA at computer and network security providers.

### Mehta to manage partnerships at Bling Nation

Bling Nation named **Shan Mehta** to its management team. He is responsible for strategic partnerships at the mobile payment service provider.


Previously, Mehta was the owner of Evigna LLC, a promotional merchandise distributor.

### Paul appointed VP at RedFin

**William "Bill" Paul** joined RedFin Network Inc. as Vice President of ISO Business Development. Previously, he was President and Managing Director at Merchants' TPS.

### JPMorgan Chase hires Stephenson

JPMorgan Chase & Co. appointed **Jack Stephenson** Director of Mobile, eCommerce and Payments. Formerly, he was Senior Vice President at PayPal Inc. and a director at McKinsey & Co.

Stephenson will lead the companywide strategy for mobile devices and Internet payments, encompassing cards, merchant services, consumer and business banking, and commercial payments. 



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Insider's report on payments  
**Could the future of micropayments be Square?**

**By Patti Murphy**

*The Takoma Group*

I've glimpsed the future of micropayment acceptance in America, and I can't help but wonder: could it be square – or rather Square? By now, you probably have heard about Square Inc., the latest brainchild of Jack Dorsey, co-founder of Twitter.

I had a chance to speak with Dorsey after a demonstration of the Square payment device at the Fifth Annual Underbanked Financial Services Forum. (The June 2010 forum was presented by the Center for Financial Services Innovation and *American Banker*.)

I'm not convinced yet that Square is an idea whose time has come. And I don't expect Square will turn the payments space upside down. But I am intrigued by Square's potential to move micropayments to plastic.

Think of Square as PayPal for the Twitter set. The intent, Dorsey said, is to make it possible for "anyone to immediately accept" credit and debit card payments. For now, though, it can only be used domestically.

The card-acceptance technology is contained in a small, square box (not much bigger than a wall-phone jack) that plugs into a mobile phone's headphone jack and incorporates a swipe reader. Square hands out the devices for free.

The company's income comes from transaction fees: 2.75 percent plus 15 cents, regardless of card type; more for card-not-present transactions. "We're network agnostic," Dorsey said.

For now, Square is available only as an application for Apple Inc. iPhones and devices running on Google Inc.'s Android operating system. Dorsey expects it will eventually work with all new generations of mobile phones.

Dorsey described Square as a transaction "aggregator," a role the card brands traditionally have looked upon with disfavor, but not any more, apparently.

"Visa and MasterCard love us," he said. Square has agreements with several card acquirers; processing workload is divvied up by geography, he added.

**An ascendant perspective**

Dressed in jeans and a sweater, a rather large tattoo

peeking out from pushed-up sleeves, Dorsey didn't look the part of keynote speaker at a banking conference. He seemed to fit the bill of a Millennial, however, those 20- to 30-somethings who came of age with the Internet.

And these folks are designing payment systems of the future. They grew up demanding instantaneous gratification, and they have few, if any, preconceived notions about the way things should be – like the idea that banks run payment systems. "Payment is inherently a social thing," Dorsey said.

Dorsey, who was designing software for taxicab dispatchers at the age of 14, describes himself as "dedicated to creating public goods which foster approachability, immediacy and transparency." Twitter was just the start; Dorsey has an army of investment "angels" backing him.

"These are not technologies people are creating, but entire social networks," Dorsey said of Twitter and Square during his presentation at the CFSI forum. "Everything is completely designed by the users."

David S. Evans, an economist, university professor and founder of Market Platform Dynamics, a Boston-based consulting firm, refers to apps like Square as "payments innovation on steroids." He pointed out that social media platforms and evolving mobile technologies support super-quick product rollouts.

**How does it square?**

Square began distributing the software app and card reader this May. To see Square in action, check out the short promotional video on the company's website, [www.squareup.com](http://www.squareup.com).

Here's a quick overview: Users sign up for a Square account online, or via mobile device, after they've downloaded the Square app to the device; the Square card-swipe plug-in arrives by mail a few days or weeks later.

To accept payments with Square, the user launches the app and plugs in the card swipe, enters the transaction amount and swipes the payer's credit or debit card. (Card-readers aren't required; transactions can be keyed in, at a cost of 3.5 percent plus 15 cents.)

The person paying can sign for items right on the phone screen. Electronic receipts, with maps showing the exact location of where the payment took place, can be sent to purchasers by text or email.

Dorsey believes the potential applications for Square are enormous. By most estimates, there are in the United States today about 6 million merchants who take in less than \$100,000 a year in credit and debit card payments.

Dorsey sees these folks as prime candidates, especially



since Square assumes all the merchant risk, including Payment Card Industry Data Security Standard compliance risks.

Then there are the countless situations in which individuals need to "square up" with one another financially and don't want to hassle with cash or checks. Situations like friends divvying up a dinner tab, selling items on craigslist and garage sales.

### Mobile innovations

Square isn't the first person-to-person (P2P) micropayment scheme to use mobile telephones; PayPal Inc. is after this space, as are a few lesser known firms.

Addressing a recent payment conference at the Federal Reserve Bank of Chicago, Evans explained how a convergence of technology and network innovations – from cloud computing to apps stores – along with the ubiquity of the web and mobile telephones, is changing the payments landscape. "Software platforms will drive innovation and transform the payments industry," he said.

That's what seems to be happening with Square.

The micropayments market is huge, especially P2P payments. Just look at PayPal which reportedly handled

\$21 billion in payments in the first three months of this year alone.

Worldwide, the potential for micropayments exceeds \$1 trillion a year, according to the international consultancy Arthur D. Little.

Recent surveys by various organizations indicate that upwards of half of all Americans would be interested in using mobile phones to make payments. Square takes that process a step further, by making it possible for everyday people to accept payments via their mobiles, too.

It may not be a technology whose time has come, but Square is sure to gain converts, especially if it works as easily and painlessly as the developers claim.

Plenty of folks (me included) didn't expect PayPal to work, but it did, and it continues to work quite well. And now, a large and growing generation with expectations around immediacy is graduating into adulthood. Square responds to this need, just like Twitter and PayPal. And as with most things social, many of the rest of us won't be far behind on the adoption curve. 📱

*Patti Murphy is Senior Editor of The Green Sheet and President of The Takoma Group. Email her at [patti@greensheet.com](mailto:patti@greensheet.com).*

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## Margin compression: What's goin' on?

By Brandes Elitch

*CrossCheck Inc.*

In Sonoma County, Calif., 40 percent of our economy is based on tourism and agriculture. A big part of that is wine. There are over 200 wineries right in our backyard, so to speak. Heck, there are 20 wineries on my street! The wine industry is going through some margin compression right now.

As local wine expert Dan Berger wrote in his column at [www.vintageexperiences.com](http://www.vintageexperiences.com), "Many wineries are in default to banks, close to it or have balance sheets that are significantly unbalanced. I hear about a winery for sale every few hours. ... Consumers are trading down and discovering that carefully chosen \$15 wines were about as appealing as the \$30 to \$50 wines. In some cases, they were more appealing."

Some people think that when the economy comes back, the upscale consumers will too, but frankly, that's just not going to happen. And this is not confined to California. Another local wine expert, Richard Thomas, wrote that in Australia, wine is cheaper than Coke – and water. He said, "A giant surplus is being produced, and export sales are way off, because of the strong Aussie dollar, which is close to parity with the U.S. dollar. Not too long ago, the U.S. dollar was worth \$1.50 Australian."

Margin compression is good news for wine drinkers but bad news for winemakers. Only a few years ago most of the very expensive wines were on allocation, and you had to know someone to get a case. How quickly things have changed.

### Music download debacle

Take the music industry. Like it or not, illegal downloading is here to stay. Local writer Gabe Meline said, "It was born of the music industry's decision to kill the LP and increase its profit margin 1,000 percent by foisting the digital technology of CDs on music fans, the same technology that eventually made possible the MP3 and the RapidShare files, and the torrents that the recording industry hates so much."

Ten years ago, album sales hit their peak: 785 million. Last year, only 489 million albums were sold in the United States, according to Nielsen SoundScan. The Seattle Weekly newspaper reported that this includes 1.1 billion tracks downloaded legally, but that this pales compared to the 40 billion tracks the International Federation of the Phonograph Industry said were downloaded illegally in 2008.

***The obvious strategy is to stop selling on price alone and focus on solving merchants' business needs. This is about knowing how to sell, something all businesses grapple with every day. ... The ISOs that survive will identify their core strengths, evolve their offerings, hire better people and train them intensively – and change market focus.***

The paper went on to quote singer Laura Viers: "That's just a sea change that's happening, especially with younger people. They don't even feel guilty about downloading music for free."

The irony is that our cultural environment is more hostile to the major labels than to the people who download all their music for free. What has happened is that the traditional business model of major labels, producers, distributors and local record stores has been permanently disrupted. The margins haven't been compressed; they've been eliminated.

### How this applies to payments

There is no question that margins have changed in the payments industry; the only question is whether this is temporary or permanent, and what the best way is to restore profitability for ISOs and merchant level salespeople (MLSs).

The Electronic Transactions Association published a 13-page white paper, *Margin Compression*, which is downloadable for free at [www.electran.org](http://www.electran.org). Here are some of the salient points.

First, hardware margins, long a mainstay for ISOs and MLSs – particularly with new merchants – have been virtually eliminated. ISOs used to fund their operations by putting a terminal and printer on a five-year, noncancelable lease at a multiple of three or four times their cost and selling the lease paper.

But no more. One theory is that so much public and private capital was poured into the industry in the last 10 years that the ISOs were awash with money, and this caused them to offer free hardware to attract merchants. Once merchants know they can get terminals for free, it is difficult to get them to agree to pay for them.

A second trend is to offer "interchange plus," or "pass

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## View

through" pricing, which, the white paper states, "generates a lower, fixed margin and eliminates margin inflation caused by debit interchange differentials and higher rates for less qualified transactions."

Third, retailer industry push-back has had an effect, although this is primarily seen at the top 200 retailers.

The corollary to this is the recent noise about the need for more government regulation and oversight, culminating in the recent so-called Durbin Amendment to the U.S. Senate bill addressing financial regulatory reform. It calls for the Federal Reserve to set prices for interchange transactions, as well as establish an interchange fee without consideration of factors like risk, fraud, network construction, maintenance and data security.

This effectively establishes government price controls (perhaps the biggest no-no of Economics 101), but there is something else to consider. Financial crises, like the one that fostered this legislation, are complex. Years later, reasonable people cannot agree on what caused them. Also, the Fed has always deferred to banks, which have had plenty of subsidies and bailouts, but it has never done a good job of protecting consumers.

The Fed still hasn't accepted responsibility for the finan-

cial meltdown, caused by its having allowed excessive growth in the money supply and lax, even incompetent, regulatory oversight. It would be a stretch to say the Fed has learned from its errors. I am sure everyone in our industry would agree that allowing it to price interchange is an outrageous idea.

### Challenges to meet

The fourth concept is that the payments industry has no barriers to entry and is saturated with too many salespeople.

This is only going to get worse as many "nontraditional" players, such as Google, Intuit, the social networks, big-box retailers, mobile providers and others we haven't even thought of yet start offering merchant accounts. "Years ago, opening a merchant account was a difficult and hard to source service," the white paper states. "Today it is almost as simple as opening a checking account."

Further, there are only five processors that will handle ISO business, and there is no differentiation of terminals, functionality or brand. Payments have become a commodity.

The report is honest and touches on some unpleasant topics: MLSs have high turnover, and many are not properly trained. ISOs have paid too much to agents: in 1998, an MLS might get 30 to 50 percent of processing revenue; today, some ISOs pay 100 percent residuals. Customer service is another issue that resonates with merchants.

The report identifies ways to deal with margin compression. Of great importance is to solve the merchant attrition problem, which can often exceed 20 percent. It calls for finding new markets, such as business-to-business, mobile, home delivery, micropayments and recurring payments.

The obvious strategy is to stop selling on price alone and focus on solving merchants' business needs. This is about knowing how to sell, something all businesses grapple with every day. There are no easy answers. The ISOs that survive will identify their core strengths, evolve their offerings, hire better people and train them intensively – and change market focus.

At least with wine, you can enjoy the benefits of margin compression, but in the ISO world, it is a harsh reality that doesn't seem to benefit anyone. ☒

*Brandes Elitch, Director of Partner Acquisition for CrossCheck Inc., has been a cash management practitioner for several Fortune 500 companies, sold cash management services for major banks and served as a consultant to bankcard acquirers. A Certified Cash Manager and Accredited ACH Professional, Brandes has a Master's in Business Administration from New York University and a Juris Doctor from Santa Clara University. He can be reached at brandese@cross-check.com.*

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# Selling Prepaid



## Prepaid in brief

### NEWS

#### Survey says CDHC gaining momentum

In its annual survey, Michigan consultancy **McGraw Wentworth** said economic forces combined with greater availability of consumer directed health plans (CDHPs) are spurring the growth of the consumer driven health care (CDHC) model. According to the *2010 Southeast Michigan Mid-Market Group Benefits Survey*, Michigan employers are shifting more health plan costs onto employees, with 23 percent of employers in 2010 offering CDHPs, compared to 19 percent in 2009. Prepaid cards work with CDHPs to facilitate health care payments at the point of service.

#### Mercator touts RAN potential

New research from **Mercator Advisory Group** reported that restricted authorization networks (RANs) are "quickly changing the traditional prepaid landscape and bridging the gap between open- and closed-loop cards." In a report entitled *Understanding Restricted Authorization Networks*, Mercator said RAN technology creates closed-loop, subnetworks using the open-loop networks of card brands and electronic funds transfer operators. The solution therefore allows for spend on open-loop, network-branded prepaid cards to be directed to select merchants, the consultancy added.

#### CFSI to develop principles for underbanked segment

At the 5th Annual Underbanked Financial Services Forum, Jennifer Tescher, Director of the **Center for Financial Services Innovation**, said the CFSI plans to evaluate current services for underbanked consumers in order to create "values" designed to boost the underbanked's adoption of financial services products such as prepaid cards.

### ANNOUNCEMENTS

#### From Accor, Edenred

**Accor Services** changed its name to **Edenred** as part of

the proposed breakup of the Accor's Hotels and Prepaid Services businesses, Accor said. Accor, which operates payment services in 40 countries, said it chose the name Edenred to reflect the company's Eden corporate project, where "Eden" represents the initials of the project's French slogan, "Entreprendre Différemment Ensemble" (Moving Forward Differently Together).

#### AccountNow adds lending feature to card

Prepaid card processor **AccountNow Inc.** introduced a credit feature to its AccountNow Gold Visa Prepaid Card, which allows cardholders to borrow money and build credit histories. The feature is called iAdvance Line of Credit and is a MetaBank product.

#### ElectraCard joins MasterCard's Prepaid Program

**ElectraCard Services**, headquartered in Pune, India, collaborated with MasterCard Worldwide for its Partners in Prepaid Program. The program brings together processors and program managers with expertise in executing prepaid MasterCard programs in the Asia Pacific region, the Middle East and Africa.

#### InComm to support Vindicia's CashBox

On-demand bill pay provider **Vindicia** integrated the gift card platform of prepaid card distributor **InComm** into Vindicia's CashBox billing system. The integration will allow Vindicia's merchants to expand their consumer demographics with a gift card solution, the company said.

#### MoneyGram on the move

**MoneyGram International** reported its global money transfer network hit 200,000 agent locations. Moneygram reached the milestone when it added to its agent network SRD MP and its partner Bimedia, a value-added services provider for tobacco and news retailers throughout France, the company said.

MoneyGram also signed First Bank of Nigeria PLC to a contract, which the company said will expand its services to over 500 bank locations across the African nation. Additionally, MoneyGram inked an agreement with Citigroup Inc. to expand its services in Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

#### 1World adds Indonesia to platform

**1World Cash**, the money transfer and prepaid card division of Las Vegas-based One World Ventures Inc., said



it expanded its remittance capabilities into Indonesia to reach the 150,000 Indonesian migrant workers who live in Hong Kong, where 1World opened its first office.

### Plastyc adds reloading for UPSide

**Plastyc Inc.** reported that UPSide Visa and iBankUP prepaid cardholders can reload time on their prepaid cell phones without having to employ additional phone cards. With Plastyc's prepaid cards, users can top-up cell phones and transfer minutes to friends and families in 30 countries.

### RP Solutions boards new clients despite economy

Remittance processor **RP Solutions Inc.** reported it has secured 10 new customer contracts since the beginning of 2010.

The new customers that will employ RP Solutions for its remittance processing capabilities include city governments, municipal utilities, a health care biller, a collections agency, a retail supercenter and a nonprofit organization, the company said.

### USA Technologies expands JumpStart program

**USA Technologies Inc.**, a noncash, wireless transaction network provider, expanded its JumpStart cashless vending program by adding the ePort G8 terminal to the ePort EDGE terminal.

### Western Union makes inroads in Turkey

The **Western Union Co.** signed an agreement with Turkey's Yapi Kredi Bank for the expansion of its money transfer distribution network into 830 YKB branches throughout Turkey.

## PARTNERSHIPS

### Limestone, CardSmith renew deal

**Limestone College** and **CardSmith LLC** renewed the agreement that provides the South Carolina liberal arts school with CardSmith's multi-application campus card solution.

The LCard allows for on-campus meal and student store purchases, as well as other uses on school grounds, CardSmith said.

### A partnership built for two

Mobile payment platform provider **Mocapay Inc.** established a strategic partnership with **Full Cycle**, a Boulder, Colo.-based high-end bicycle retailer.

Mocapay said the partnership will allow Full Cycle to

leverage Mocapay's software-as-a-service platform to enhance the bicycle company's marketing and sales efforts through the mobile phone channel.

### IDT to distribute mobile money transfer service

**RegaloCard LLC** entered an agreement with **IDT Corp.** for the distribution of RegaloCard's micro-money transfer service to immigrant communities in the United States.

### New c-store, game publisher pact

**7-Eleven Inc.** said it partnered with game publisher **Zynga** to offer FarmVille-, Mafia Wars- and YoVille-branded items on many of the convenience retailer's products, including Slurpee and Big Gulp drinks.

### TSYS Healthcare integrates with Lighthouse1

**TSYS Healthcare**, a Total Systems Services Inc. subsidiary, signed an agreement with **Lighthouse1 LLC**, a CDHC administration software solution provider. The partnership enables CDHC administrators to manage prepaid benefit cards using the Lighthouse1 OnDemand Platform.

### Visa, Bancomer launch remittance program

**Visa Inc.** and BBVA Bancomer S.A. subsidiary **Bancomer Transfer Services Inc.** teamed for a money transfer service to give U.S.-based Visa cardholders a means to transfer money to friends and family living abroad.

## ACQUISITIONS


### InComm buys Coinstar's E-Payment business

**InComm** purchased **Coinstar Inc.**'s E-Payment business for \$40 million. InComm bought the business to expand its retail footprint by broadening its distribution in convenience stores, according to Brooks Smith, CEO of InComm.

## APPOINTMENTS

### Jackson joins Mercator as Senior Analyst

Mercator Advisory Group welcomed **Ben Jackson** as Senior Analyst to its Prepaid Advisory Service.

Jackson served as editor for several payments industry publications and worked most recently as an independent consultant. At Mercator Jackson will focus on analysis of the ever evolving prepaid card industry, the Boston-based advisory said. 



## Features

# Prepaid's relevancy for mass transit reaffirmed

**A**s the move to electronic mass transit fare payment systems speeds along, a white paper issued by the Smart Card Alliance offers a reminder that a prepaid card component to such systems should not be overlooked.

In the March 2010 report, *A Guide to Prepaid Cards for Transit Agencies*, the case was made that transit agencies have a long-standing commitment to serve their entire riderships. Even though agencies for big cities are looking to implement systems that allow riders to use traditional bankcards to pay for fares, constituencies without access to credit and debit cards must be taken into consideration.

"Because some segments of a transit agency's ridership may not qualify for a credit or debit card or may be uninterested in establishing a relationship with a bank, transit agencies should consider promoting the use of prepaid cards that can operate like a bankcard but be available to anyone," the paper said.


### A smart legacy

Currently, cities like Chicago, Washington D.C., Atlanta, San Francisco and Boston run on smart cards, which are essentially prepaid cards, according to Randy Vanderhoof, Executive Director of the Smart Card Alliance. The electronic systems use closed-loop, near field communication-enabled smart cards that are loaded and reloaded with funds. Those funds can be supplied by bankcards or cash.

Creating open-loop systems that use network-branded cards – such as Visa Inc. and MasterCard Worldwide-branded debit and credit cards – is the next step many transit authorities want to take. "It looks like there is strong indication that at least the larger metropolitan transit operators are embracing open bankcard payment technology utilizing the existing contactless payment technology available for credit cards and debit cards," Vanderhoof said.

But that rush by transit agencies to embrace a new and cheaper technological solution cannot leave behind the legacy smart card systems on which people still rely. That is why prepaid cards "provide a means for the transit agency to cover the diverse needs of its constituents," the

SCA paper said. "As a result, prepaid solutions are highly relevant to an agency planning to introduce open payment systems based on banking products."

Therefore, the SCA advises transit authorities to retain their smart card legacy systems for customers who don't carry contactless bankcards. "However, an agency could also decide to use network-branded contactless prepaid cards to achieve the same market coverage," the paper stated. "This strategy would enable a single technical approach to serve all riders." 

## Perspective on the 'gift' economy

By Thom Aldredge

*World Gift Card*

**A**t Christmas in 2002 our daughter received three gift cards totaling \$150 for a national bookstore chain. My wife and I were concerned; although she received other presents, this was a major part of her holiday haul. So we asked her if she was disappointed. Her response: she loved to read, she loved music and she loved good coffee.

The bookstores had coffee bars, and our daughter could listen to new artists demo CDs (back then) and browse the book racks with a mocha latte. She couldn't imagine getting better gifts for Christmas. I assure you she spent more than the value she had received on those gift cards.

Does she still shop with that bookstore chain today, eight years later? You bet. It is anecdotal evidence of the importance of gift card programs to merchants. Retailers should realize that a satisfied customer like our daughter is what drives their bottom line.

### Explosive growth

The gift, or prepaid, card industry has enjoyed what can only be described as a volcanic explosion. Less than 20 years after the introduction of the electronic gift card, more than \$100 billion is loaded onto the cards in the United States annually. That's about \$357 of gift card spending per individual per year.

There are a variety of reasons for this growth. But the main reason is that the American buying public has embraced the notion that a gift card confers the gift while the recipient retains the choice. But the popularity of gift cards isn't just about the card recipient, it's also about the merchants, too. Merchant issuance of cards that customers buy, and recipients enjoy, encourages repeat business. That's the merchants' "gift."

During the bustling 2007 holiday season, when merchants ran out of merchandise, the sale of gift cards brought

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## Selling Prepaid

customers back. During the less prosperous 2009 holiday season, merchants under-stocked merchandise, and yet gift cards still brought customers back.

### The giving economy

The act of giving is a concept embraced by every culture, every creed and every individual. There is something inherently pleasing about one person bestowing a gift upon another. The holiday season is the pre-eminent gift giving time.

But, as human beings, we give all year long, and for many purposes: Valentine's Day, Mother's Day, Father's Day, back-to-school, graduations, birthdays, anniversaries, retirement parties, commemorations, love notes, parties, good efforts and so on.

Gift giving also extends to what we like to do for other human beings in need, whether it is a direct investment by each of us individually, or casually, through a percentage of our purchases that a merchant donates to specific charities. It is a part of our DNA.

The notion of a "gift" economy exists, as individuals give to one another for a variety of reasons, and nothing is expected in return. Merchants and retailers, subject to a market economy, are delighted that a gift economy supports their efforts.

Gift certificates were invented to allow customers to bestow a gift of value upon a recipient without the complication of deciding what the recipient might want to receive.

Great gift giving requires a level of commitment in determining what the recipient might like and then making that selection process a combination of insight and thoughtfulness. All of us enjoy a thoughtful gift, given from the heart. And the example of our daughter cited earlier is instructive – those gift cards were what she wanted.

As we mature as a nation of shoppers and gift givers, gift cards will increase our ability to be insightful (what would this person enjoy having) and thoughtful (do we have the recipients best interests in mind). Our "potlatch" is the stuff of a parallel economy, even a culture.

Gift certificates allowed us to bridge the gap of judgment, and they simplified the process of gifting, which at the least prevented embarrassment for those who needed a last-minute gift. The evolution to electronic gift cards was a natural one, and added a great deal of convenience to the endeavor.

Now, the addition of loyalty recognition to purchases made with gift cards is perpetuating and expanding their use. The notion of dual rewards just for using a gift card is highly motivational.

### Types of gift cards

There are two basic categories of gift cards: open-loop and closed-loop. Open-loop refers to cards that are accepted basically anywhere.

These are the branded Visa Inc. and MasterCard Worldwide prepaid cards, the American Express Co. gift card, and the Discover Financial Services gift card. Open-loop, network-branded cards can be used wherever branded financial network cards are accepted. The cards can be purchased in a variety of locations.

Closed-loop refers to cards that are issued and accepted by a merchant or retailer. They can generally be used only at the locations specified by the issuer. The value on the card is controlled by the issuer. There are situations in which open-loop cards can be used in more restricted settings and closed-loop cards can be used in more unrestricted settings.

Both types of cards represent distinct market niches and come with their own sets of features and benefits. It is important for ISOs to understand their similarities and differences.

It is also important for merchants to know how to use each type of program to achieve maximum benefits. Consumers that buy the cards, as well as the cards' ultimate recipients, need to know what to expect as far as terms and conditions from each type of card program.

### Tools that multiply value

With the advent of electronic gift cards, the payments industry has realized their impact on the creation of opportunities to upsell merchants, generate additional revenue and, more importantly, solidify merchant relationships. Gift card programs that complement retailers' merchandise and services become a valid, valuable and, now necessary, value-added service.

Merchants without an electronic gift card program are missing out on a method that enables their current customers to bring them new customers. ISOs who do not offer their merchants a value-priced, technologically advanced, turnkey gift card program (both closed and open) are leaving dollars, and potential referrals, on the table.

This is the first in a series of articles about gift cards. In my next article I will discuss gift cards as an alternative payment tool. 📧

*Thom Aldredge is President of World Gift Card, a turnkey gift and loyalty card program provider based in Plano, Texas. He is a spokesperson for the gift card industry and serves on the Electronic Transactions Association Government Relations Committee. Call Thom at 800-745-4112 or e-mail him at [thom@worldgiftcard.com](mailto:thom@worldgiftcard.com).*

# CompanyProfile



## Retail Cloud

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Concord, CA 94519  
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## 'Super Bowl' technology for merchants

**R**etail Cloud is a web-based retail management system that delivers on-demand enterprise tools for micro to mid-size retailers. The cloud technology platform provides real-time control over all aspects of running a retail operation. Using a cell phone or network device, merchants can track transaction activities, bestsellers, inventory levels, reorder alerts, labor management and a variety of other time critical data necessary to maximize profitability.

### Real-time POS for retail

Retail Cloud founder and Chief Executive Officer Kevin Colaco started the company in 2006 to serve short-term merchants, such as those selling wares at special events or seasonal venues. Initially named InvenTrak, one of the company's first objectives was to develop a wireless POS network application that would support retail merchandise sales at high-profile sports events.

Building such a system required the capacity to transact a large volume of sales in compressed time windows without any downtime.

"The Super Bowl is one of our customers," Colaco said. "They do one year of sales in one day. So, if the system malfunctions for an hour, that's comparable to a regular merchant malfunctioning for an entire month. Reliability is key."

By 2007, Colaco identified a paradigm shift in the small and medium business (SMB) segment. Merchants who had focused primarily on cost-cutting measures were beginning to embrace new technologies to amplify business and harness greater profits. During this transition,

this company committed nearly two years to the redesign of its product, developing tools and adding features that were geared specifically toward SMBs

For ISOs, merchant retention increasingly revolved around creating a more holistic merchant experience. "We knew that the typical ISO [serving] small merchants had to have something that was simple to use, sell and manage," Colaco said. "Everything had to be very straightforward about the rollout. Then it had to be able to give merchants practical solutions without committing a large amount of financial and technology resources."

In April of 2010, InvenTrak changed its name to Retail Cloud to better reflect the company's broader scope of computing technology, including on-demand information and the tools to facilitate business growth within the retail cloud. Features that were once only available to large retailers could now be accessed and utilized by small businesses to build a customer-centric sales operation.

### Retailers flock to the cloud

Colaco has found that today more than ever retailers are turning to technology to solve their problems, and that having optimum inventory levels and the right mix of offerings can make or break the sale.

He feels that success will ultimately depend on how well merchants use technology budgets to deliver value to customers and optimize return on investments to ensure faster and more relational interaction with customers, partners and suppliers. According to an ABI Research study titled "Next Generation Point of Sale

## Company Profile

**"We have defined ourselves to be in the packaged goods space. Our ideal customer and typical merchant uses item numbers, UPC numbers that are scanned and tracked at the item level. We don't handle food service or restaurant businesses. There are several applications that exist in those areas. Our goal is to fill a well defined void, rather than create another product that already exists in the market."**

- Kevin Colaco, founder and Chief Executive Officer, Retail Cloud

Systems and Retail Technology," retail technology spending is expected to reach nearly \$21 billion in 2014. Retail Industry News reported that 27 percent of retailers plan to deploy cloud-computing solutions this year. So strong demand for technology in the retail sector will continue to drive growth.

For SMB merchants who already rely on cloud-based applications for email, scheduling and marketing, Colaco believes conversion of these retail enterprises to hosted solutions represents a natural progression in the technology cycle. The convenience of opening a web browser to view sales and customer data and to perform supply chain functions is an attractive feature for merchants seeking to save time and increase overall efficiency.

With cloud computing, merchants can integrate resources into a single platform without abandoning business

processes and applications they've already established. Centralized storage of retail data and having the built-in flexibility to scale resources up or down in response to seasonal or economic fluctuations add value to the package, the company stated in its web content.

Another advantage Retail Cloud cited is that shared resources, software and infrastructure are provided on-demand. Operating on a "pay-as-you-go" basis, merchants realize substantial savings by running business applications over the Internet from a centralized server, rather than internally, which requires on-site technical support, the company explained. It also noted that its fixed monthly rate includes all upgrades, as well as ongoing technical support and training for its merchant users.

"We have found that merchants doing as little as \$5,000 a month in credit card volume have been able to cost justify the application," Colaco said. "It's not about savings, it's about providing the solutions they need, such as disaster recovery – most small businesses don't have access to that. We took intuitive solutions and made them available to the merchant in a very seamless manner. Our company offers the tools to grow their business."

As to what types of business fit into the Retail Cloud, Colaco said, "We have defined ourselves to be in the packaged goods space. Our ideal customer and typical merchant uses item numbers, UPC numbers that are scanned and tracked at the item level. We don't handle food service or restaurant businesses. There are several applications that exist in those areas. Our goal is to fill a well defined void, rather than create another product that already exists in the market."

### What's in the bag?

"When a merchant asks what a POS system can deliver, what they're really asking is how they can put more stuff in the bag," said Retail Cloud Sales Manager Tom Hennigan. "They want more features to automate processes, so they can focus on the core tasks involved with selling. Our POS software application and retail management modules can literally change the product life cycle for merchants."

To simplify selling for ISOs, Retail Cloud offers the entire suite for one basic price, charging a fixed monthly license fee based on the number of points of purchase at each location. Included are the front-end POS application; Customer Experience Optimization (CEO) application;

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TimeTrak time and attendance tracker, which integrates into third-party payroll systems; purchase order system, which sends orders directly to vendors; and automatic reordering module, which suggests items to reorder.

Its Central Administration System (CAS) is a platform-independent module that allows authorized users to monitor and control all retail and POS activities simultaneously, according to Hennigan. It automatically generates email alert notifications whenever inventories are low and tracks inventory in-transit and real-time sales data with payment type. The InvenTrak inventory management system is scalable for single and multiple-location stores and warehouses.

The CEO module gathers transactional information at the POS and returns customized promotions and recommendations through the PosiTrak POS system prior to processing. Additionally, the CEO is able to send a digital receipt to the customer, while also creating a customer profile, Hennigan explained. The module enhances the customer shopping experience and improves spending by matching buying patterns with available inventory.

Originally designed to quickly train hundreds of temporary employees to sell merchandise at sports venues, PosiTrak's simple, navigable menus require minimal train-

ing, Hennigan noted. Just in case, units come equipped with on-demand chat support. An online wizard helps merchants with the initial setup of hierarchy. Each transaction processed on PosiTrak updates to the CAS automatically. Hennigan added that the TimeTrak labor management system also helps merchants make efficient use of the workforce. Employee productivity reports show the transaction history of each employee, and statistical data can be compiled from the module to manage current and projected labor costs.

Retail Cloud has built extra layers of security into its system. Processing and storage of POS information is performed over a redundancy and Payment Card Industry Data Security Standard compliant system, according to the company. Each merchant has an individually designated database, so there's no chance of one merchant seeing another merchant's data. All card payments are processed directly through card processors. No card data is stored on the system.

### Joining the cloud

Though Retail Cloud continues to serve major sports events, it has found its niche in hardware, furniture, sporting goods, boutiques, wineries, seasonal and kiosk retailers, franchise and multiple-location stores, and a number of other retail enterprises.

One of the early adopters of Retail Cloud's technology is AFA Protective Systems Inc., which deploys the system for its turnkey retail infrastructure that operates short-term "pop-up" stores. AFA co-owner Jeff Furst stated, "It's a simple, yet sophisticated low-cost solution. The front-end POS is very clean and easy to operate. We're able to manage inventory and analyze sales data efficiently. We always have a backup system and the network is reliable."

Martin Marin, General Manager of Retail Operations for Team L.A. at the Home Depot Center in Los Angeles reported, "We installed the Retail Cloud system two years ago in all five of our stadium locations. We've had other systems in the past, but this one is live. It provides second-by-second processing, whereas other systems had a 24-hour wait cycle. We're able to see what is selling and place [the] next day's orders. If we're out of an item on Saturday, we have it the next day."

Hennigan pointed out that Retail Cloud offers "a value-added solution for merchants ready to take the next step in technology." He added that ISOs receive 30 percent monthly commission per POS under the company's generic plan; with the white-label program, rates are set by the partner, which can also control merchant access through its own web portal. Driven by partner interest, the company plans to launch Retail Cloud University later in 2010. The training program will cover all facets of the system in brief sessions designed to help partners establish relationships with retailers and successfully integrate the Retail Cloud suite. ■

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## The PA DSS deadline looms

**T**he importance of the July 1, 2010, deadline for businesses to comply with the Payment Application (PA) Data Security Standard (DSS) should not be underestimated, according to industry experts who spoke with *The Green Sheet*. The PA DSS, which is primarily intended to guide software vendors in the development of secure payment applications that do not store cardholder data, also applies to ISOs.

"I think it's critical that they are aware of it," said Ross Federgreen, founder of payments industry consultancy CSRSI, The Payment Advisors. "And it is reflected in what Visa does to audit the member banks, and therefore the processors, is that the audit is now going through to the level of the ISOs."

It is therefore incumbent on ISOs to ensure their merchants are using PA DSS compliant software, Federgreen added. And ISOs seem to understand that. "I really think that in this day and age the ISOs are very circumspect about selling terminals that do not have compliant software in it," he said. "They don't want to risk the liability."

"None of the ISOs that I have spoken to are interested in putting something on the street right now that is not compliant."

Federgreen said he knows of no defined penalty if merchants, processors or vendors are found noncompliant after the July 1 deadline passes. But the card brands could impose fines, and ISOs could lose their registration, he noted.

### Shrink-wrapped solutions

The PCI Security Standards Council (PCI SSC) authorizes PA QSAs (qualified security assessors) to perform assessments on payment applications to ensure compliance. One such PA QSA is Trustwave.

Keith Swiat, Director, Payment Application Practice, Global Compliance Services at Trustwave, said software vendors represent 99 percent of the clients Trustwave performs application assessments for.

He said the software itself must meet two basic sets of criteria in order to fall under the PCI SSC's guidelines: it must be involved in the authorization or settlement functions of electronic transactions and it must also be considered an "off-the-shelf, shrink-wrapped application," such as one an ISO would buy from a third-party vendor as part of a POS terminal set-up.

According to Swiat, a normal assessment for a functional application could take five to six weeks and another month for the PCI SSC to grant its approval, so it is unrealistic for vendors just recognizing the approaching deadline to expect to get applications through the process in under two weeks.

Like Federgreen, Swiat does not know what is going to happen to noncompliant vendors and merchants once the deadline passes. But he believes the presence of a deadline forces businesses to be aware of whether their software is compliant. "Unless you impose a deadline, people aren't really going to take it seriously," he said. ■

## Global fraud tool on the horizon

**T**he international fraud fight may have an interesting new aspect. A global firm called ValidSoft is preparing to implement a program designed to authenticate payment card purchases by measuring proximity between a card transaction and the cardholder's cell phone.

The program, called VALid-POS, tracks the location of a consumer's cell phone through cell sites used to transmit mobile phone calls. Specifically, the process involves something called "trilateration," or the use of three nearby cell sites to approximate a cell phone's geolocation.

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## News

The VALid-POS system uses that data to provide a measurement between the location of a card transaction and that of the legitimate cardholder's cell phone, be it for a POS transaction, ATM withdrawal or card-not-present purchase made over the Internet. If the two markers are too remote, the transaction can be flagged or blocked.

"Banks currently look at your historical patterns of activity, and based on that, if something very unusual crops up, it's regarded as a suspect transaction," said ValidSoft Chief Executive Officer Pat Carroll. "When they think it's a suspect transaction, they get it wrong nine times out of 10. And that's the best they can do. If a bank is using our technology – and we've proven this now with certain major banks – we turn a 90 percent failure into a 95-plus percent success."

Carroll noted that the VALid-POS service has undergone trials in a number of European countries, as well as in the United States, Australia, Mexico, Singapore and Japan. "We expect to have our first major clients in the United States running by the end of this year," he said.

### Privacy protection

Banks that subscribe to the service will have to collect cell phone numbers from clients to whom they issue credit and debit cards, Carroll said. He added that consumers who wish not to participate can opt out of the program.

That opt-out provision and other measures of conscientiousness earned VALid-POS the elusive "European Privacy Seal," Carroll reported. Another privacy feature is that, while ascertaining payment card to cell phone distance, the service does not reveal to its operators the phone's (meaning, in most cases, the

consumer's) actual whereabouts.

Carroll said issuing banks determine the rigorousness of their screening processes; ValidSoft merely provides the probability of authenticity, while the banks decide whether transactions are approved or rejected (or flagged for follow-up with, for example, a phone call to the consumer that solicits additional verifying information).

Some banks may choose to flag only cross-border discrepancies involving cases in which the cardholder's cell phone is in a country other than where a given transaction takes place. Others implement stricter criteria such as flagging transactions that range outside of the city or town in which the mobile phone is located, or even ones that exceed a specified distance between phone and purchasing card – say, 100 feet. Banks can also make decisions on a per transaction basis.

"We'll never be 100 percent correct," Carroll said. "There will always be instances where you forget your phone or whatever. The default option for the bank is always the system they currently use today. They will always make the decision [about whether to approve a transaction]. All we simply do is give them greater quality of information to help make that decision."

### Quick calculations

Carroll said VALid-POS's authentication process takes less than half a second to produce an algorithmic probability of transaction authenticity. For example, a transaction in the United States where the cell phone and POS system are closely positioned might generate a 99.5 percent probability of authenticity rating. He added that the program works with virtually any cell phone.

Tim Cranny, CEO of Panoptic Security Inc., said VALid-POS would be an effective tool, but pointed out that the ongoing consolidation of mobile device functionality might crimp the service's run on the market.

"In a lot of ways it's a good idea," Cranny said. "If I'm a consumer and I'm

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in Salt Lake City and my credit card is used in New York, that is weird and questions should be asked. ... If I've got a credit card, smart phone, keys and drivers license you can use these different things to reinforce each other.

"But what's going to happen is, as things get more mobile and the devices get more intelligent, I think we'll move to a phase where in five years time it's not that they'll be reinforcing each other, it's that they will have collapsed into one or two things," he said. "With multiplicity you can use them to validate each other, but that process will be more difficult with one universal device." ■

## First Data charts the rise of fraud as a service

**A** new First Data Corp. white paper reports that cybercriminals have adopted their own form of software as a service (SaaS). It's called fraud as a service (FaaS), which uses the same online infrastructure as SaaS to more efficiently perpetrate fraud schemes.

In *Fraud Trends in 2010: Top Threats From a Growing Underground Economy*, Rick Van Luvender, Director of the First Data InfoSec Incident Response Center, wrote that fraudsters have exploited business tools – the Internet chief among them – to "gain access to a wide range of applications while offloading the need to have knowledge of, expertise in or control over the technology infrastructure that supports them."

Central to FaaS are online fraud forums through which individuals and organizations exchange information and buy and sell stolen wares, such as card numbers. To increase online traffic, forums often "offer tutorials, how-to guides or even specialized venues for goods from specific countries or regions," Van Luvender wrote.

The forums provide access to fraudsters who specialize in designing software applications for Trojan and phishing scams, for example. Furthermore, the forums facilitate the "cash-out" process after data has been stolen.

On a commission basis, contractors known as cashiers and money mules utilize electronic money transfers to drain the accounts and convert the funds into legitimate currency, the white paper said. These contractors also help validate customer verification value numbers against corresponding credit card numbers, for a fee.

### Into the cyber underground

Fraud continues to grow, according to the white paper. Citing the 2009 Verizon Business Data Breach Investigations Report, First Data's InfoSec said 285 million consumer

### Credit Card Fraud Statistics

**285 million**

Number of consumer records compromised in 2008

**\$0.10 to \$25**

Amount paid per stolen card number

**\$4,000**

Average credit limit on stolen credit cards

Source: 2009 Verizon Business Data Breach Investigations Report

records were compromised in 2008, more than the previous four years combined.

Credit card numbers remain the most popular stolen item, according to the white paper. Stolen card numbers sell for between 10 cents and \$25 per card, with discounts offered for bulk purchases. The average stolen credit card has a credit limit of \$4,000, the report stated.

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The report listed the top 10 fraud trends. They are:

1. Malware attacks
2. Phishing and other types of social engineering scams
3. ATM skimming
4. Structured Query Language (SQL) injections
5. Counterfeiting outside the Europay/Mastercard/Visa security standard zone
6. Insider fraud
7. Money mules
8. Avatar/virtual criminal markets (online role playing games, social networking)
9. Supply-and-demand black markets
10. Creative money laundering schemes

### Navigating the threat landscape

InfoSec advised payments industry constituents, as well as merchants and consumers, to more fully understand how fraudsters operate, specifically in new media environments like social networking site Facebook, in order to mitigate risks and recognize attacks before they inflict severe damage on businesses and individuals.

"Understanding the nature of both data theft and the conversion of stolen data into cash can help organizations

of all types better anticipate where criminals may exploit the system, so they can put appropriate preventive measures in place," the whiter paper said. ■

## Feedback from CAPP exercise proves informative

A cyber attack simulation exercise that tested the security networks of over 700 financial institutions and other organizations was successful in educating participants about the current threat landscape and helping them improve enterprise-wide security, according to John South, Chief Security Officer at Heartland Payment Systems Inc. and co-leader of the exercise.

The Cyber Attack against Payment Processes (CAPP) exercise, which was conducted over three consecutive days in February 2010, presented participants with written scenarios that involved such fraud schemes as spear phishing, distributed denial of service (DDoS) attacks and a data breach at a fictitious third-party processor.

The scenarios evolved and grew in complexity over the three-day period. Participants then answered questions about how they would react to the attacks. "So they learned how their company would respond," South said. "They got to test their incident response plans. And then they got a chance to revamp their incident response plans to more appropriately cover some of the attack vectors that are out there today."

### Attack vectors

The Financial Services and Information Sharing and Analysis Center (FS-ISAC), which prepared and orchestrated CAPP, tabulated the results from the exercise and published a summary (downloadable for free at [www.fsisac.com/files/public/db/p243.pdf](http://www.fsisac.com/files/public/db/p243.pdf)).

Four exercises were administered: one each for financial institutions, retailers, payment processors, and other businesses and governments. The payment processor exercise involved a spear phishing attack (an email scam targeted at individuals within organizations). Additionally, the scenario had a hacker infiltrate the processor's network and compromise user names and passwords.

"And then when they thought they had that covered, then we threw a distributed denial service attack on them," South said. (DDoS attacks attempt to prevent websites and other online services from functioning properly.) The scenario was therefore designed to evolve and put more pressure on the processor over time.

By doing that, the exercise showed processors how their

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response plans operate and whether they "escalate as the problem escalates," South said.

### Responses under scrutiny

The summary reported that 85 percent of the processors recognized on day one that a data breach had occurred. Businesses in the other sectors measured similar attack recognition rates when confronted with their scenarios. By day three, virtually all exercise participants (from 95 to 97 percent) realized their organizations, or their customers, had been attacked, the summary said.

But Tim Cranny, Chief Executive Officer of payment security consulting firm Panoptic Security Inc., cautions against reading too much into those percentages.

While he acknowledges the value of the exercise, it's not like being subjected to an actual attack. It's the difference between "going to the gym and having a boxing class and being mugged," he said.

In the real world, companies experience more trouble concerning detecting and stopping fraud than they openly admit, he added. "I think this [exercise] should be interpreted as the best possible spin put on the underlying reality," he said.

### Breaches and law enforcement

The FS-ISAC also concluded that processors – as well as most of the other businesses and organizations that took part in the other three exercises – were not quick to bring law enforcement agencies into the process after detecting a security breach.

"The reasons were across the board," South said. "But, in some cases, they didn't think they had enough information, or they didn't know which law enforcement agency would be involved. Or they just didn't want to get law enforcement involved that early because they were afraid of what law enforcement might do: take over the systems."

Cranny believes reluctance to inform law enforcement is explained by companies wanting to retain control of managing the breach.

"Once they bring in third parties, even law enforcement, the story is beyond their control," he said. "And it can be very difficult to manage the story. What they want to do, of course, is protect their customers and their partners but also continue to look as good as possible. Bringing in law enforcement takes it out of their control."

By day three of the exercise, however, all the payment processors (except one) recognized the scope of the scripted attacks and had contacted law enforcement, such as the FBI or U.S. Secret Service, South said. He hopes that the exercise participants learned a lesson.

"When there is a serious enough attack that involves the kinds of information or financial instruments that were involved in this, that they would not be reluctant to bring law enforcement in as quickly as possible once they identified the scenario being relevant to law enforcement," South said.

### Actions to take

Based on the results of the exercise, the FS-ISAC made recommendations about how businesses and organizations can improve enterprise data security and operational risk. Among the proposals are for businesses to install a dedicated computer for accessing online banking and initiating payments and to incorporate end-to-end security that makes cardholder data useless to fraudsters even if it is compromised.

South said the FS-ISAC expects to continue with CAPP exercises done quarterly starting in the first quarter of 2011, with each quarter devoted to one scenario for one of the four sectors.

The payment processors scenario is slated to be the first one administered in 2011. South also said future exercises will be more complex than the initial one and therefore more challenging for participants. ☐

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# BookReview

## Guiding merchants toward honest processing partners

In his elucidating and detailed book, *Navigating Through the Risks of Credit Card Processing*, Bill Pirtle offers merchants a guide on the perils of card acceptance, as well as the benefits for those who do it prudently.

Though selecting a good card processor and vetting the contract with a sales agent tends not to top the average merchant's list of concerns, Pirtle argues that it behooves retailers to apply themselves to such tasks with the carefulness and rigor they would use in purchasing product inventory or launching ad campaigns. As the book describes, businesses can sink or swim on the strength of their processing agreements and partnerships.

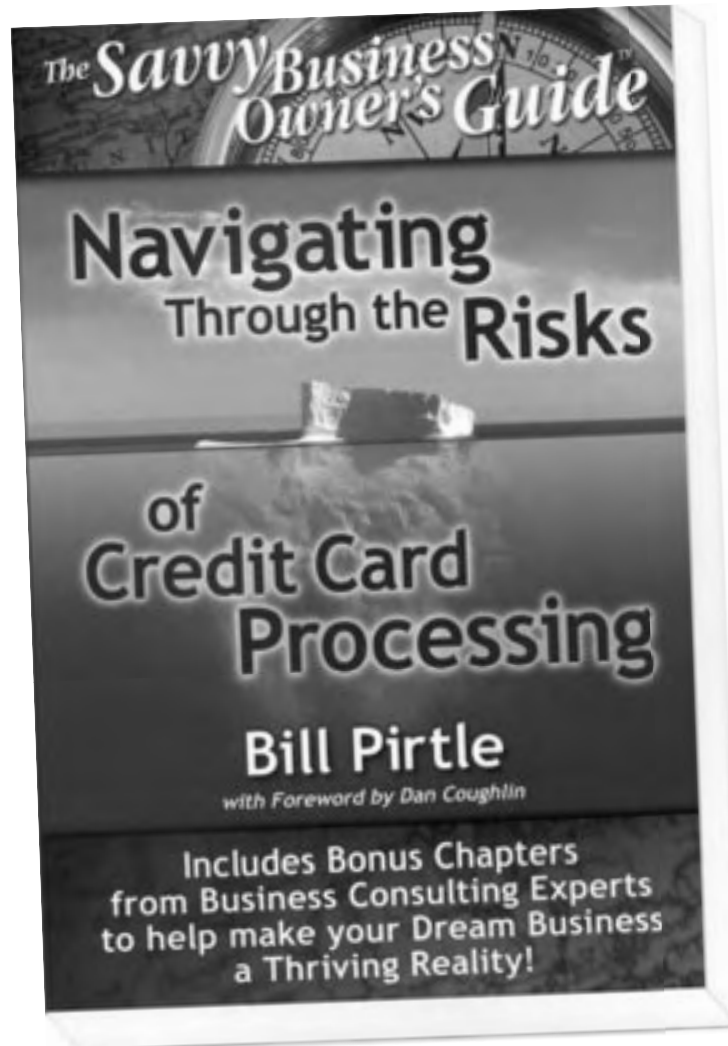
Though the book explicitly addresses merchants, it is perhaps no less relevant to the ISOs and merchant level salespeople who serve them – and is a kind of hymn to those who provide merchant services in an honest and transparent way.

"As an honest agent, I am tired of seeing liars promise the world to merchants and not deliver," wrote Pirtle, President of Merchant Processing Consulting & Training, a merchant services provider and consultancy. "People ask me all the time why the contract they signed with a competitor is more expensive than they expected.

"Until the card brands, honest processors and honest agents can find ways to clean up our industry, we will suffer a bad reputation and invite regulation."

### Where the author finds fault

What does Pirtle suggest needs cleaning up? The author describes a laundry list of tactics commonly



### Navigating Through the Risks of Credit Card Processing...

Bill Pirtle  
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Paperback, 325 pages  
ISBN-13:  
978-0-9826116-0-9

used by processors and merchant service providers that he believes are underhanded and dishonest.

Among them are Payment Card Industry Data Security Standard-compliance fees that, Pirtle said, many outfits levy without providing services that help with compliance; "free" terminals bundled with hidden fees that make them, in the long run, more expensive than priced terminals; and – the one that Pirtle seems to find especially egregious – early termination fees (ETFs).

Pirtle feels that not only are such fees unfair; they also portend a broader problem – lousy service. "The contract states the merchant acknowledges that the [ETF] fee is not a penalty, but is to cover the loss of profit for the processor for losing the contract," Pirtle wrote. "If that is the case, why do many processors allow the sales agents to set the ETF or receive it upon loss of the customer?"

"If the sales agents' promises match the results, few merchants would



want to jump ship. It seems to me that the processors who lure merchants with lies and deceit tend to have the largest ETFs."

On the subject of hidden fees, Pirtle compared the two most commonly used merchant pricing structures: plus pricing and tiered pricing. While Pirtle said tiered pricing benefits certain types of merchants, he stressed that it tends to carry unnecessary costs, though it is packaged to seem like the better option.

Pirtle said tiered pricing often involves a bait-and-switch tactic where merchants are lured in with discounted rates but are ultimately charged more. Processing rates are advertised as being unusually low, but the advertised rate will apply only to a certain type of card or will carry hidden surcharges. By contrast, merchants who sign up for plus pricing get a flat, clearly stated rate on card transactions.

To be sure, there is nothing inherently wrong with tiered pricing structures, but Pirtle has a point: the more fees vary, the more room there is for deception. And he contends that tiered pricing systems are rarely the client's best option: "Tiered pricing benefits the processor, not the merchant."

### Other notable passages

Also included in the book are lists that contain the following: provisions typically found in merchant processing agreements; suggestions for our nation's lawmakers; and safety tips for merchants to prevent breaches, avoid chargebacks and navigate other hazards that threaten a business's survival.

Among other things, Pirtle advises merchants on watching out for skimmers and avoiding the storage of payment data; on storing receipts and transaction records, along with developing plans to fight frivolous chargebacks; and on carefully securing wireless POS networks.

And lest the reader think Pirtle is waging war against the acquiring sector with his expose on processor subterfuge, he does rally to the defense of bankcard players on one key issue: the regulation of interchange. Pirtle passionately stated his opposition to what is probably the most visible and well-known controversy the industry faces.

His argument here covers the usual points: that such regulation would amount to the very uncapitalistic practice of price controlling, would be no different from regulating the price of bread or gasoline, and would stifle the profitability and growth of the acquiring industry while threatening the livelihoods of its players.


Besides, Pirtle pointed out, merchants aren't forced to accept payment cards – they choose to accept them because doing so draws extra revenue (the common counterargument here is that the practice isn't really a choice

because many businesses wouldn't survive on just cash acceptance). This point, again, is a familiar refrain, but that doesn't necessarily make it less true.

For all of the empathy he professes toward merchants, Pirtle shows no soft spot for the retailers that have helped launch the crusade for regulation, and he makes an interesting argument comparing some of their own practices to the tacking on of interchange.

"It is ironic to me that convenience stores are at the forefront of the interchange battle," he wrote. "Convenience stores, including the large chain with the two odd numbers in its name, have the highest markups of any store."

Interchange isn't the problem, according to Pirtle. The problem is all the hidden fees that get piled on top of interchange – fees that aren't nearly as notorious, but perhaps only because they aren't as well-known. "There are many areas where processors are deceitful," Pirtle wrote. "Interchange is not one of them."

The book also contains bonus chapters from other business consultants offering advice on topics such as business planning, social media, POS systems, visual branding, permission-based marketing, e-commerce and customer retention. 



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# Research Rundown

## Interchange fee regulation under scrutiny

On May 13, 2010, the U.S. Senate passed its version of financial regulatory reform that included an amendment sponsored by Sen. Dick Durbin, D-Ill., that would grant the Federal Reserve the right to set interchange fees for debit transactions. The reason given for the provision was that it could potentially benefit consumers and small businesses. However, many in the payments industry are concerned the provision could have negative impacts if signed into law.

In a new white paper, *The Economics of Payment Card Interchange Fees and the Limits of Regulation*, Todd Zywicki, a fellow at the International Center for Law and Economics, analyzes the benefits of electronic payments systems, the costs of paper-based payment systems, understanding the role of interchange, the case for regulation and the potential consequences of interchange fee regulation. To download the white paper, visit [www.voiceofpayments.org](http://www.voiceofpayments.org).

## Fraud trends 2010

First Data Corp. issued a white paper entitled *Fraud*

*Trends in 2010: Top Threats From a Growing Underground Economy*. Fraud accounts for more than \$200 billion in annual losses in the United States as highly sophisticated cybercriminals compete to deliver "fraud as a service" using a two-step process that involves stealing data and then converting it into cash.

To help mitigate risk and avoid fraud, the white paper details how cybercriminals operate. It outlines the top 10 targets for fraud, ranking credit card data and financial account information at the top.

It also features this year's top 10 fraud trends and the most popular methods used by the thriving underground economy. To download the white paper, visit [http://www.firstdata.com/en\\_us/insights/fraud-trends-2010](http://www.firstdata.com/en_us/insights/fraud-trends-2010).

## Data breach mitigation

In 2010 *Data Breach Prevention and Response: Causes, Consumer Consequences, and Tools for Layered Defense (DLP and STEM)*, Javelin Strategy & Research recently reported that at least 28 percent of all consumers received a replacement debit or credit card in 2009 as a result of security issues at a cost of \$252 million in card reissuance.

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<p><a href="http://www.netcompaysystem.com">www.netcompaysystem.com</a> Sponsored by Citizens Bank N.A.</p>	<p>MSB Compliant Age, ID and OFAC LexisNexis InstantID 3 Levels of Check Verification 5 Year Storage Free</p>	<p>6 UP Residuals for All Netcom Products</p>
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Even with data breach notification laws in effect in all but four states, and the recent enactment of the Red Flag Rules of the Fair and Accurate Credit Transaction Act of 2003, many consumers fail to take advantage of identity protection services, not realizing that victims are five times more likely to experience other forms of fraud once a breach notification has been issued, according to Javelin.

The report indicated the problem facing financial institutions (FIs) is that 38 percent of consumers view their FIs less favorably after receiving breach notifications and that they are less likely to use reissued cards. The report suggests preemptive actions businesses can take and discusses data monitoring options. To view the report, visit [www.javelinstrategy.com/research](http://www.javelinstrategy.com/research).

### Smart phone adoption climbs


**A** new Javelin Strategy & Research report, *2010 Mobile Banking Behaviors: Fewer Handsets in the U.S., yet Smartphone Growth Exceeds Expectations*, finds that mobile phone adoption dropped sharply from 85 percent in 2009 to 74 percent in 2010 as 23 million consumers cancelled their contracts. Smart-phone adoption for the same period rose by 7 percent. The report provides insight into mobile banking customers and their preferences, offering guidance on how financial institutions can capitalize on this growing trend

with browser, text and application-based mobile offerings for remote deposit capture, mobile person-to-person payments and transferring funds between accounts.

Mobile banking research findings include:

- One in five U.S. adults now owns a smart phone.
- Consumers cite a lack of perceived value, concern about security and cost among the top reasons for not using mobile banking.
- Mobile banking is done primarily through mobile Internet browsers.
- Only 18 of the top 40 U.S. banks now offer mobile banking.

### M&A activity rises in acquiring sector

**A**ccording to management consulting firm The Strawhecker Group, acquisitions are heating up in the acquiring sector. Buyers with capital are ready to move quickly on acquisitions or joint ventures in properties valued at \$1 million to \$75 million. TSG reported that target acquisitions include enterprise, static merchant portfolios, and portfolios with sales engines or additional payments technology capabilities; buyers are primarily interested in portfolios on select platforms, as well as those focused on strategic verticals. 

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GS Online from page 1

The screenshot shows the homepage of 'The Green Sheet' website. At the top, there is a navigation bar with the phone number 888 398-6001 and the email agentrecruiting@cardready.com. The main header features the 'The Green Sheet' logo and a 'Please Login' section with fields for Username and Password. Below the header, there are three main columns. The left column has a 'Fast Finder' search box and a 'NEWS FROM THE WIRE' section with several news items. The center column has a 'Breaking Industry News & Information' section with a headline 'Global fraud tool on the horizon' and a date 'June 14, 2010 • Issue 10:06:01'. The right column has a 'G/SQ' logo, a 'SellingPrepaid' logo, a 'Retail business.com' logo, an 'Ad Insertion Order' button, and an 'Upcoming Events' section. Three callout boxes are overlaid on the page, each showing a zoomed-in view of a specific section: 'Publications section includes:', 'MLS Forum section includes:', and 'Resources section includes:'.

### Publications section includes:

- The Green Sheet - Current Issue
- The Green Sheet - Archives
- GSQ - Current Issue
- Street Smarts
- Contributing Writers
- Company Profiles
- Industry Leader Profiles
- Knowledge Is Power
- Book Reviews
- Sarcasm Sells - Editorial Cartoons
- Word Search Archives

### MLS Forum section includes:

- Green Sheet MLS Forum
- Selling Prepaid Forum
- Ask The Green Sheet
- "The Watercooler" area
- MLS Opportunities recruiting area

### Resources section includes:

- Resource Guide
- Card Brand Interchange Rates
- Glossary of Terms
- Payments Industry Calendar and Datebook
- Trade Association Directory
- State Financial Regulatory Agencies
- MLS Support Tools
- Media Kit

## Home, the source for news and information

Let's begin at home, [www.greensheet.com](http://www.greensheet.com), and discuss the main features found there. Directly below the GS logo, you'll see Fast Finder. This search tool can comb *The Green Sheet* archives or News From The Wire. Entering a word or phrase in the search field will take you to a page where you can add an additional word or phrase, if desired, as well as use a drop-down menu to narrow your search by story type. Fast Finder will search for the exact words or phrases you enter.

Scroll down a bit and you'll see News From The Wire, which contains up-to-the-minute developments of high relevance to payment professionals. Press releases are posted to News From The Wire throughout each workday.

The full text of each release is followed by a List by Date/Search function that helps you locate additional news on industry topics.

The left-hand column also contains links to our glossary, a list of GS Advisory Board members, industry job opportunities, instructions on how to send us a press release and our RSS feed. In addition, you can add the daily industry news headlines to your Yahoo account by clicking the My Yahoo button provided.

## Center field

Breaking Industry News & Information, located in the center column of the home page, provides coverage of news items of high relevance to ISOs and MLSs. Many

## CoverStory

stories posted here also appear in print; others are featured only online. When you click to read the full article, the most recent articles also appear on screen, followed by the View Prior Breaking News prompt.

Directly below Breaking Industry News & Information is QSGS (Quick Search Green Sheet), which offers an overview of key articles found in the current issue of *The Green Sheet*. QSGS typically displays a dozen stories. Click on a story title to view the full article. Once there, you're free to navigate through any of the stories in the issue with the table of contents-style navigation on the left side.

### To the right

In the upper right-hand column of the home page, you'll find our login and registration area. For complete access to GS Online, create a login profile by clicking on Register Today! at the top of the page or the Register link on the top navigation bar, both of which lead to The Premier Trade Publication for the Payments Industry registration form. Registered members can subscribe to the paperless version of *The Green Sheet*, as well as qualify for access to resources and contacts available only to industry forum members.

Another way to register for GS Online and receive print and/or paperless copies of our trade journal is to click

on Subscriptions in the top navigation bar. There you can also update or change your mailing information whenever needed. The print version is mailed to domestic U.S. addresses only, while the paperless version is available globally.

In the right-hand column, you'll also find several buttons. The GSQ button links to the online version of our quarterly print magazine. The Selling Prepaid button takes you to SellingPrepaid.com, where you can view breaking news related to the prepaid card segment. Once there, you can also read the informative E-Magazine, join a Forum and view a host of prepaid resources listed on the Resources page.

Further buttons in the right-hand column will take you to RetailBusiness.com, for organizations that offer a variety of services of interest to ISOs and MLSs; an Ad Insertion Order form; details on important upcoming industry events and tradeshow; and GS Travel Advice, which contains a wealth of inside information on destinations throughout the world.

### The publications hub

In the top navigation bar, click on Publications, and find links to our publications. It begins with the current issue of *The Green Sheet* (also reachable from the GS Current Issue link in the navigation bar) and moves next to *The Green Sheet* archives, which contains full issues dating to 1995. Issues are now available in both HTML and PDF versions.

Below the archives link is GSQ-Current Issue, which leads to PDF versions of our full-color quarterly magazine – dating from the present to 1999. This is the place to catch up on key industry topics such as security, alternative payments, technology and the state of the industry. Special issues ranking top ISOs and acquirers are found here as well. Click the cover image of the current issue for the full PDF. Archived years are listed on the left. Click the year of interest to you and then click the appropriate GSQ cover image to view the entire issue.

The Street Smarts link leads to a must-read educational and informative series written by industry veterans committed to sharing diverse opinions, observations and concerns about issues critical to the feet-on-the-street. This archive provides a wealth of knowledge, information and insights from as far back as 2003.

Several other helpful links are on the Publications page. To learn more about industry contributors to *The Green Sheet*, click on Contributing Writers. The Company Profiles link will take you to feature articles published in *The Green Sheet* about companies of interest doing business in the payments space.

Other features on the Publications page include industry

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leader profiles, Robert O. Carr's Knowledge is Power series, and fun diversions such as word searches and humorous cartoons.

### Forums for informative exchange

A magnet for traffic and a springboard for lively conversation among nearly 32,000 registered forum members, the Forums link in the top navigation bar opens to a spectrum of MLS forums that are moderated by *The Green Sheet*. They are a secure networking space for payments industry sales professionals.

A good starting point on the Forums page is the General Information — New Users Look Here! link, which guides you through the process of logging in and how to access the MLS forums. You will need to be a member of the MLS/ISO group to participate in the MLS Forum. Other forum areas include the Selling Prepaid forum, Ask the Green Sheet, where members can send inquiries to *The Green Sheet*, and an open exchange forum known as The Watercooler.

In the MLS Opportunities section of the Forums page, you'll find a host of job-related resources including MLS Agent Recruiting, MLS 2 MLS equipment and service postings, Executive Positions and ISO Staff Positions Needed for career recruitment, High Risk Business offerings for high risk merchant accounts, Business Services for the MLS and MLS Training resources for payment industry professionals.

### Resources that support MLSs

Clicking on Resources in the top navigation bar leads to a diverse toolbox chock full of information. The Resource Guide offers a comprehensive listing of the top organizations and service providers, along with direct links to websites, and phone number and email contact information. This paid directory also appears in the print version of *The Green Sheet*.

In addition to accessing our glossary from the left-hand column of the home page, you can also reach it from the Glossary of Terms link on the Resources page. If you're unfamiliar with an industry term you may have seen in one of our publications, this is where you'll likely find it. If not, send an email to [greensheet@greensheet.com](mailto:greensheet@greensheet.com), and we'll provide a definition.

The Resources page also links to the Payments Industry Calendar of listings on industry expos, trade-shows, association meetings and events. You may view featured events in a month-at-a-glance calendar or all events in chart form. Datebook includes highlights, dates, locations and registration information for key events. Click on the Trade Association Directory for a listing of the industry's most visible regional, national and multinational associations. It provides contact information and direct links to each association. The State Financial Regulatory Agencies section links to the regulatory agen-

cies in all 50 states that oversee banks, credit unions, industrial loan companies and more.

The Resources page also features MLS Support Tools, including the MLS Profit Calculator and the Interchange Profit Calendar. The page has a link to our Media Kit as well.

### Advertising opportunities

And we haven't overlooked those who wish to advertise in *The Green Sheet* and GS Online, a marketing option that scores of leading industry companies swear by. Click on Media Kit in the upper navigation bar to see circulation figures, a readership profile, testimonials from satisfied advertisers and contact information for our advertising staff. You can also download insertion orders, advertising templates, a current rate card and advertising deadlines.

To see an exhibit of the banner and skyscraper ads currently running in rotation on the website, click Ad Page in the upper navigation bar. The goal of *The Green Sheet* has always been to serve our readers. We welcome your feedback and suggestions. You can find further details about *The Green Sheet* by clicking Who We Are in the upper navigation bar of our home page. And to reach us online, visit the Contact Us section where you will find listings for our entire staff. ☐

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# Education

## StreetSmarts<sup>SM</sup>



## What does a merchant get for a PCI fee? - Part 2

By Ken Musante

Eureka Payments LLC

**T**his is the second of two articles on the increasingly common Payment Card Industry (PCI) Data Security Standard (DSS) compliance fee. The first article, "What does a merchant get for a PCI fee? - Part 1," was published in *The Green Sheet*, June 14, 2010, issue 10:06:01.

I had posted on GS Online's MLS Forum that I was a bit confused about what merchants get in return for this \$5 to \$15 monthly PCI fee. Seeking clarity, I asked Forum members the following:

1. Is this fee really as common as I am indicating? It seems that most acquirers are now charging, and this fee has replaced some of the margin compression from lower rates.
2. Is my assessment on the range accurate, or are you all seeing numerous instances outside of the \$5 to \$15 per month range?
3. It's unclear to me what this fee covers. For example, some acquirers include insurance with the monthly fee in case of a breach. Other acquirers state the fee allows the acquirer to be PCI compliant. What does it really include/exclude?
4. Is the logical conclusion that this is just another fee? It seems, over time, we acquirers will get smart enough (I'm optimistic) that we will be deploying products that are inherently secure. Upon doing so, I don't see this fee going away. Do you agree?

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5. If there is a breach at a third party (gateway for example) used by many merchants within a portfolio, and the insurance company does not pay (for whatever reason), is the acquirer ultimately liable because they were the ones charging the fee?

### The discussion continues

**STEVEN\_PEISNER** addressed some of the finer points of my questions. "1. Yes, PCI fees are about as common today as the daily conversations about the topic," he wrote. "When dealing with a retail merchant, it is something that I do not look forward to discussing because a lot of them just don't understand it."

Most retailers think that PCI DSS (although important) only has to do with e-commerce, Internet and MO/TO merchants all in the CNP [card not present] world.

"Now when you are talking to a large Internet retailer or MO/TO merchant processing thousands of transactions per month, they usually have someone at their company assigned to security, so it makes the job a lot easier. I have personally seen \$4.95 per month to \$19.95 per month [in PCI fees]."

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**Look at a statement lately: monthly statement fees, online access fees, NABU fees, Visa network access fees, merchant club fees, international assessment fees, misuse authorization fees, chargeback fees, retrieval fees, AVS fees, and the fee I personally love the most, a 'reversal fee' (that is when a merchant wins a chargeback, the list processor charges them \$7 to put money back in the merchant's account). Give me a break!"**

Forum member STEVEN\_PEISNER

"2. This is a security issue, and merchants must pay this fee. And if you are PCI DSS certified and there is a breach, you have safe harbor [that way you will not be fined, because you were PCI DSS compliant]. But wait. If there was a breach, you weren't PCI DSS compliant; so you weren't compliant, so you will pay. ... It is a little confusing; isn't it?"

"3. Yes, it's just another fee that we [the MLSs] have to explain in great detail. What merchants feel is that they are being fee'd to death. Look at a statement lately: monthly statement fees, online access fees, NABU fees, Visa network access fees, merchant club fees, international assessment fees, misuse authorization fees, chargeback fees, retrieval fees, AVS fees, and the fee I personally love the most, a 'reversal fee' (that is when a merchant wins a chargeback, the list processor charges them \$7 to put money back in the merchant's account). Give me a break!"

"4. It will probably take a court decision to answer the breach question, and as everyone is probably aware, the insurance company is going to look for a reason not to pay as fast as they can. The irony of it is that the insurance company will not pay because the merchant or processor was not PCI compliant.

"Ultimately, as you are aware, it may be the member that will be held responsible, as they should have known what 'their' processor or MSP/ISO was doing. And if the breach is large enough, Congress points the finger at everyone, and everyone pays."

### Limited effectiveness

STEVEN\_PEISNER concluded that PCI DSS fees and SAQs [Self-Assessment Questionnaires] are a joke. "Data security is very important, but realistically no merchant can ever be 100 percent PCI compliant unless they turn off their computers, unplug the terminal, smash the hard drives and stop taking credit cards," he stated.

"We build a 10-foot wall, and the hackers and data thieves build an 11-foot ladder. It's the old story of good versus

evil, spy versus spy or the kid who stopped a dam from leaking with one finger."

IONPS articulated a perspective that was in several of the postings: "PCI is, in my humble opinion, just a big CYA policy for Visa," IONPS wrote. "When major credit card processors and large merchants get breached – and those guys all have full-time and very skilled technical security staffs – what real chance does the small to medium merchant have?"

"Don't get me wrong, basic security is needed across the board. However, the vast majority of merchants do not have the time, technical expertise, money or knowledge of the credit card industry to be 100 percent safe 24/7.

For that matter, do you think the average MLS can rattle off even the 12 main PCI DSS requirements for a prioritized approach? What about the sub-requirements? How about the sub-sub-requirements?

"The ISOs out there like FASTTRANSACT that are really putting forward some value and offering the security the merchant needs – by all means charge the fee! You are doing them a great service.

"However, if it is just another fee that is dropped in your pocket, we need to be careful. When folks start throwing another fee into the mix, we wind up getting one step closer to government regulation. ... When I look at merchant account statements now, there are dozens ... of fees on some of these statements. ... A perfect example of this is on my desk right now: a merchant is being charged \$12.95 per month for a paper replacement fee. However, he is a website business that uses Authorize.net."

To keep the discussion moving, I suggested valid reasons exist for the PCI fee: many acquirers provide insurance for merchants, scanning services, and assistance in passing the scans, filling out SAQs and in creating policies.

ALEXPHER disagreed, "Referring merchants to third-

party certification vendors and ISOs profiting in referral commissions from third-party vendors (in addition to their PCI monthly/annual fee) is in no way 'value provided,'" he wrote.

### Further questions

To get a perspective from the compliance side of the business, I contacted Michael Johnson, President of Comply Guard Networks. He said that most banks and ISOs "offer a PCI service of one form or another. The better services offer SAQ, scan, policy, and merchant education, along with some level of management console for the bank.

"Even more interesting is the noncompliance fees being levied. Those run \$20 to \$50 per month for a Level 4 merchant. [One large acquirer] is on the street right now with a nasty-gram to Level 2 merchants that if they do not submit their required compliance documentation by a specific date, they will be assessed a large fine."

Regarding breach insurance, Johnson stated, "The early adopters of breach protection called it 'insurance,' and it went out to cover the merchants and processors. ... They require 'all in,' meaning the entire portfolio must be covered, as the policy is written to the acquirer/processor. Most of the programs I have seen have some serious limitations.

"The problem is this protection in no way provides compliance. ... Many merchants believed they did not have to complete PCI DSS requirements because they have this protection. It is a problem now to re-educate these people about what their obligations are. Some frankly do not care, as it is cheaper to have the breach protection than to become and maintain PCI compliance. They do so at their own peril."

### Liability issues

Johnson noted that the purpose of breach protection, or an actual cyber insurance policy, is to offset the costs in the event of an incident. "There is already evidence that the liability will flow downward," he said. "Witness also that breaches such as

Heartland and TJX yielded class actions that sought relief from those with the deepest pockets.

"Everyone loses. Remember the contractual relationships involved. The card brands have the contract with the bank, who has the contract with the processor or gateway or ISO and/or merchant. It gets ugly real fast. The weakest in the chain may not survive. Therefore, it is in everyone's best interest to ... not seek quick-fix alternatives."

What makes this topic so polarizing is the magnitude of liability and the uncertainty as to who ultimately owns the liability. To wit, when an ISO or acquirer



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## StreetSmarts

assesses a monthly PCI fee that includes insurance, who is liable if, after a breach, the insurer declines the claim?

Consider a large portfolio utilizing a common third party. If that third party fails, each merchant using said third party is at risk for compliance fines. If fines are assessed and the insurer then declines coverage, is the ISO or acquirer responsible for refunding all those monthly fees? I hope this theoretical situation never materializes, but the question remains.

Also, are sponsor banks being properly compensated for the additional risk brought to bear because of the "weak link" argument discussed by Johnson?

**CLEARANT** raised an additional concern and a fair last point to consider. "Many reps are 'helping' their merchants complete the SAQ," he wrote. "I don't want to attempt to advise you on how you handle this, but my guess is that this would be a really bad thing for you to do.


"Why? It was mentioned earlier that the potential is for a breached merchant to sue the processor over the fees. ... I would think that if a merchant is looking at thousands of dollars (or even tens of thousands or hundreds of thousands) of losses, they are going to go after everyone involved, especially if they were involved in the initial setup process and data sharing ... meaning those who 'help' could find their help not appreciated, and very expensive."

### Data protection

A number of legitimate frustrations exist surrounding the PCI fee, but I will concede one point to the card networks, the issuing banks and those that are working in the PCI field: until rules existed and monetary fines were levied in response to breaches, the industry was not doing a competent job protecting cardholder data.

Consider the consequences were the breaches to have continued along the same trajectory as before the addition of the PCI DSS and the awareness brought about by the scanning and validation companies.

I am very appreciative of all the responses I received. While I could neither post all of them nor fully address all the questions raised, I hope this discussion provided some new angles from which to view this issue and that we brought to light some concerns and liabilities that perhaps you had not previously considered.

Regardless, when in doubt, sell something! 

*Ken Musante is President of Eureka Payments LLC. Contact him by phone at 707-476-0573 or by e-mail at kenm@eurekaypayments.com. For more information, visit [www.eurekaypayments.com](http://www.eurekaypayments.com).*

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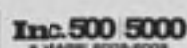
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## Education (continued)

### Beyond professional courtesy

By Dale S. Laszig

Castles Technology Co. Ltd.

The term "professional courtesy" can be traced back to the times of Hippocrates, when physicians treated each other's families at no charge. The practice has evolved over the centuries to embrace a broader definition of special favors. Professional courtesy in the payments industry may include waiving cancellation and restocking fees and extending introductory offers to new customers.

Another important kind of professional courtesy is the way we treat each other in the workplace. Elizabeth L. Post, granddaughter-in-law of Emily Post, defines the golden rules of business as people "helping each other across all levels and treating one another with courtesy and thoughtfulness."

On-the-job conduct is just as important as industry experience and product knowledge. Elizabeth Post wrote in the introduction to *Emily Post on Business Etiquette*,

"Whether you are making a first impression during a job interview or representing your company to others, your manners are often counted as highly as your knowledge of your subject matter or your brilliance in the conference room."

#### Six rules to follow

In times of economic uncertainty merchant level salespeople (MLSs) can establish credibility and help restore trust in financial service institutions by incorporating the following six rules into their personal and professional lives.

##### Rule One: Be punctual

Arrive on time or early to appointments and set the tone for a meaningful exchange.

Earning new business is tough enough; why reduce the odds by showing up late? Effective time management is the hallmark of a competent executive. Tardiness sends the wrong message. It broadcasts that you don't respect other people's time. Arriving late is counterproductive and puts the latecomer on the defensive because he or she must start the meeting with excuses and damage control.

##### Rule Two: Practice thoughtfulness

Be the one who carries out random acts of kindness.

Have you ever received a handwritten thank-you note? You may have one on display on your desk or filed away for safekeeping. Written notes are a rarity these days; that's what makes them special.

Savvy MLSs routinely send thank-you notes to merchants, whether or not they win the business. Why? Prospects give us time they will never get back. They invest in us even when they don't buy our product. Personalized notes differentiate thoughtful agents from those so intent on getting deals that they ignore the people who help them along the way.

##### Rule Three: Cultivate empathy

Begin sales presentations with questions.

Thoughtfulness begins with empathy, and empathy takes practice. It's "Habit Number Five" in Stephen Covey's best-selling book, *The Seven Habits of Highly Effective People*, in which the author appropriately advises, "Seek first to understand, then to be understood."

Empathy is a prerequisite to consultative, solution-based selling. Covey wrote, "Although it's risky and hard, 'seek first to understand or diagnose before

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you prescribe' is a correct principle manifest in many areas of life. It's the mark of all true professionals. It's critical for the optometrist; it's critical for the physician. You wouldn't have any confidence in a doctor's prescription unless you had confidence in the diagnosis."

#### Rule Four: Practice reciprocity

Get in the habit of thinking, "Who else can benefit from this?"

Reciprocity, defined as a mutual exchange of privileges, is another aspect of thoughtfulness. Unlike quid pro quo – the assumption that for every good action there must be an equally positive and immediate reaction – reciprocity is based more on compassion and less on keeping score.

A sincere and compassionate interest in others is a prerequisite to authentic networking, where sharing ideas and information can lead to greater opportunities.

#### Rule Five: Show respect

Resolve to treat others as you would want to be treated.

True leaders treat people equally and hold them in high regard, regardless of their stations in life or what they are able to bring to the table. Abraham Lincoln was known for his humility and his respect for everyone with whom he came in contact. In an address to German immigrants in Cleveland, Ohio in 1861, Lincoln stated, "I hold the value of life is to improve one's condition. Whatever is calculated to advance the condition of the honest, struggling laboring man, so far as my judgment will enable me to judge of a correct thing, I am for that thing."

#### Rule Six: Volunteer

Join like-minded professionals and make a difference in the payments industry.

The best way to move up in your organization is to study the issues that affect your company's future. Pressing issues such as government control of interchange can have an immediate and lasting impact on all of us. We can't afford to look the other way. Send an email to your state representative and make your opinion count. Aligning your interests with your company and industry will place you side-by-side with your company's management as you work together to achieve common goals.

### The art of the deal

How would you like to be remembered by your colleagues, co-workers and customers? Hippocrates left

us a multifaceted legacy of best practices, professional courtesy, and the Hippocratic Oath, a timeless message that's relevant for all professions, including ours. An updated version of the oath, which I found at [www.pbs.org/wgbh/nova/doctors/oath\\_modern.html](http://www.pbs.org/wgbh/nova/doctors/oath_modern.html), was written by Louis Lasagna in 1964 and is used today in many medical colleges. It states:

*"I swear to fulfill, to the best of my ability and judgment, this covenant:*

*I will respect the hard-won scientific gains of those physicians in whose steps I walk, and gladly share such knowledge as is mine with those who are to follow. . .*

*I will remember that there is art to medicine as well as science, and that warmth, sympathy, and understanding may outweigh the surgeon's knife or the chemist's drug."*

Let's honor the pathfinders who went before us in the payments industry and remember that there is also an art to selling merchant services. And let's make professional courtesy mean a good deal more than just a good deal. 📺

Dale S. Laszig is Vice President of Sales in the United States for Castles Technology Co. Ltd., a manufacturer and global provider of smart card, contactless and POS solutions. She can be reached at 973-930-0331 or [dale\\_laszig@castech.com.tw](mailto:dale_laszig@castech.com.tw).

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## Education (continued)

# Succeeding at PCI compliance – Part 2: Executing an effective pilot program

**Dawn M. Martinez**

*First Data Corp.*

In "Succeeding at PCI compliance – Part 1: Planning the initial rollout," *The Green Sheet*, May 24, 2010, issue 10:05:02, I suggested that choosing a trusted Payment Card Industry (PCI) Data Security Standard (DSS) compliance vendor was key to a successful rollout, and I outlined the selection criteria we used at First Data Corp.

I also recommended running a pilot program to solidify your choice. Narrowing the field helps you make a good decision on paper, but a pilot program puts all the promises of the vendor to the test. Before you sign a contract, you will know which vendor is the best match for your company, including your systems, people and processes.

### Level the playing field

The first step in developing your pilot program is to level the playing field. Make sure you will be evaluating both vendors in the test on an apples-to-apples basis. For example, if you are focusing on restaurant merchants with one vendor, do the same with the other vendor.

Don't forget to include a mix of merchants using software, high-speed Internet and dial-up for credit card processing. Ensure your data is accurate and up-to-date.

Finally, choose enough merchants for each vendor to provide a reliable yet manageable sample. Our chosen size was 500 merchants for each vendor, but you can determine what number will provide the best representation of your merchant base. This will not only test your vendors' ability to scale, but also help manage your expectations of the program.

### Payment process and costs

To address merchant concern over the costs of PCI compliance, you may wish to provide quarterly or even monthly payment options instead of annual payments. You may also want the flexibility to pay through the processor rather than pay the vendor directly.

These variables should be represented in your pilot criteria. If the vendors you are evaluating do not offer multiple payment options or have difficulty in delivering on what they claim to offer, you will find out about it in the pilot stage.

Limiting yourself to one option is fine. However, if you are considering multiple options, split up the merchant base in your pilot program. This is the approach we took,

and it helped us learn which payment option was more popular among merchants, which was easiest to manage and how each vendor handled the payment options. Some vendors are not as flexible in working within a multiple-payment-option environment.

### Time frame

The length of your pilot will be driven by the number of merchants involved, as well as the communication methods you employ. For example, if you are messaging through monthly statements, you may need more time than if you are using email.

Ensure that you allow adequate time to get the results you seek. Start and end the pilot at the same time with both vendors, and stick to your deadlines; you need to base the results on a specific time frame. If the vendor is unable to execute on the program as quickly as you would like, you will learn that immediately. That could affect your choice of partners, based on your internal project deadline.

### Evaluating your vendors

Each vendor should provide you with an executive summary of the pilot results, including their own comments. In addition, you should solicit input from all internal team members involved in the pilot, as well as the merchants, to determine their experience with each vendor.

To obtain your merchants' response, consider engaging a marketing company to help produce a short survey. We found this feedback to be essential in evaluating the vendors. Be mindful of your merchants' time by ensuring the survey is short and the questions concise.

Consider the following items during your evaluation:

**Overall experience:** Describe the overall relationship/experience with the process and vendor.

- Can you imagine yourself in a successful day-to-day working relationship with one of the vendors?
- How successful were the vendors in obtaining results?
- How would you describe the communication process between you and the vendor as well as between the merchants and vendor?
- Were the vendors in constant communication with you throughout the pilot, or did they address their concerns at the end?

**Customer service and support:** Compare and contrast the vendors' service and support.

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- Which vendor provided better customer service to both you and your merchants?
- Who came closest to delivering what was promised?
- Request a satisfaction report on the support representatives if they called the vendor support line. Were the support representatives polite, well spoken and friendly on the phone? Were they knowledgeable and able to resolve issues with minimal phone transfers?
- Is the customer support unlimited and always accessible? Is unlimited support and service an additional cost to the program?
- Do you have the ability to refer back to recorded calls to assist with issue resolution?

**Tracking and reporting tools:** Analyze the vendors' tracking and reporting capabilities.

- Did one vendor offer more functionality in its tool set than the other?
- Was the online enrollment effective?
- Did you have the ability to customize the tools?
- How easy were the tools for the merchants and your internal team members to use?
- Were the tools flexible?
- Were you able to query to produce reports needed within your organization?
- Were the tracking functionality and results accurate?

The pilot lets you actually use the vendor's tools to track merchant response and produce necessary reports. The vendor may look good in boardroom presentations, but the pilot either confirms a vendor's capacity or exposes its weaknesses.

By combining all of this information, you can get a good picture of important variables such as merchant response, the success rate for PCI compliance, your personal experiences with the vendor, program costs, and how quickly the vendor can develop and implement the program.

These are key indicators of the relationship you will experience once you are under contractual obligation with the vendor.


### Take your time

As important as the pilot will be in helping you make a decision, don't rush it. Take the time to flush out any potential problems.

Get to know each vendor's systems, support staff and communication processes, especially if you have a large merchant base. Make it easier on yourself; know your vendor well. Test the relationship before the ink dries.

Also, at the conclusion of the pilot, make sure the vendors provide you with thorough reports and a concise analysis of the process and program from their perspective. Regardless of your choice, the vendors' feedback will be helpful to you during your rollout.

The time you spend in your pilot is one of the best investments you will make as you move your merchants toward PCI compliance.

Next you'll be ready to go live with your program. Coming in Part 3 of this series: implementing the rollout. 

*Dawn M. Martinez is Director of Data Security for First Data Corp. In this role, she oversees PCI compliance and data security initiatives for thousands of bank partners, ISO clients and merchants. Contact her at dawn.martinez@firstdata.com.*



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## Education (continued)

### Training to go global

By Carrie Hometh

Payvision

**T**he implementation of a successful training strategy is critical to staying competitive during challenging economic times. Training plays a vital role in providing the skills and knowledge needed to stay ahead of the pack. When it comes to global issues, training is paramount because there is a constant stream of new and different information.

Global training must cover two areas: sales and operations. From a sales standpoint, the first issue this specialized training must address is how the major card companies work worldwide, how they price interchange and some of the differences in rules and regulations.

#### New questions

Global training must next focus on currencies other than U.S. dollars both to authorize in and settle in. There are myriad choices and decisions to be made by merchants at the time of settlement:

- Do they want to settle in U.S. dollars?
- Do they want to manage the fluctuations?
- Do they want to open multicurrency bank accounts in different areas of the world?
- Do they want to convert the monies to U.S. dollars or keep it in the currency of the sale?

These are just a few examples of the kinds of questions merchant level salespeople (MLSs) need to ask. The list of questions will vary, depending on whether they are talking to the marketing or finance or tech department. Training is the key to knowing what to ask and how to respond to the information provided.

#### Multiple issues

Global training must also address the fact that the nature of international sales is different. Often MLSs are asked about some of the differences and how payments work worldwide, so they need to be comfortable with 80 different forms of payment types.

There are also different settlement processes. Here, in the United States, we are accustomed to daily settlement. International processing can take up to 72 hours, and even longer in South America and Asia.

From an operations standpoint, global training must cover the merchant account application as well as underwriting. International merchant account applications requirements are lengthier, so there is a greater need for clarification, and that is where the proper training sessions come into play.

*Here, in the United States, we are accustomed to daily settlement. International processing can take up to 72 hours, and even longer in South America and Asia.*

Underwriting international accounts is more complex than underwriting domestic accounts. Language differences often require translation services, and there are many global operational issues that are just not present stateside.

#### Tailored training

Training is a basic requirement of going global. How do you address that requirement? Provide the appropriate tools such as detailed training manuals, slide/PowerPoint presentations, face-to-face training sessions, webinars, website tools, conference calls, online support and a customized program to meet the needs of your resellers.

No matter which genre of training you select, providing a question-and-answer session is a necessity. A successful training program allows its participants to ask questions and be part of an interactive session.

No one person knows how much expertise an individual or company possesses. Interactive training sessions provide the feedback needed to identify and assess the merits of the sales force.

Please note that training for global processing is not the same as standard sales training. Standard sales training is all about closing the deal. Agents are even trained to listen for phrases they can turn into a close. When it comes to global training, it's all about the expertise.

You are selling your understanding of global processing, as well as your credibility in this arena. You're not selling your ability to turn a phrase and close a contract. Because of this major difference, global training must focus more on knowledge than sales technique.

Global training sessions should never exceed one hour. You'll lose the audience and cover too much information in a prolonged time frame. Schedule a session each week for several weeks, rather than cram all the information into one day.

#### Individual needs

Needless to say, the most beneficial sessions are conducted in person. You can gauge the reaction of your audience and can immediately see if your presentation is making





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any sense to them. That kind of feedback just isn't available over the phone or on the web.

Web-based sessions are admittedly more efficient and do reach more people. Perhaps webinars can be implemented as follow-up training sessions to the initial face-to-face seminars, since supplemental training is just as important as the introductory program.

To structure an effective global training program, you need to know that people learn through visual and kinesthetic modes. To meet the visual need of training, provide manuals, PowerPoints and handouts.

To meet the kinesthetic need, set up mock meetings at the training sessions; have the MLSs give presentations, and then discuss together the pros and cons. Invite a limited number of agents for each session; too large a group hinders interaction and dialog.

Because of the nature of our industry and the unavoidable high employee turnover, training sessions need to be conducted quarterly for new MLSs. Refresher sessions should also be held quarterly for existing agents, since international policies are constantly changing.

### Winning qualities

Who in your company is best suited to conduct these training sessions? Your trainer should be someone who is patient, well spoken and comfortable in front of a crowd. Just because a professional is good at selling doesn't mean he or she is good at training. Good trainers possess knowledge, willingness to share and a desire to engage in a two-way conversation with resellers.

Trainers who lecture without interacting with their audiences will fail. Trainers have to understand the material well enough to personalize it for each audience. An effective trainer has to capture the trainees' interest quickly, either through humor or a relevant story.

And finally, how do you measure the success of your global training program? Easy. Look to the portfolios of your resellers. Look to your bottom line. If what you see is not what you expected, go back to your training strategy and give it a global makeover. 📧

*Carrie Hometh is a respected industry professional in the international marketplace with more than two decades of global experience and expertise. She currently serves as Senior Vice President of Sales and Marketing for Payvision, a leading international payment solutions provider that offers a comprehensive suite of products and services that include global acquiring, multicurrency processing and alternative payment solutions. She can be contacted at [c.hometh@payvision.com](mailto:c.hometh@payvision.com).*



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## Education (continued)

### Eight keys to a great first impression

By Nicholas Cucci

Network Merchants Inc.

In the research of body language, interaction between two individuals is one of the most popular areas of study. Research indicates 90 percent of people will form an opinion about you within the first four minutes of meeting you, and 60 to 80 percent of that opinion will be based on nonverbal criteria.

In addition, Dr. Frank Bernieri of the University of Toledo conducted a study in which the first 15 seconds of videotaped interviews were shown to impartial observers.

His analysis found the impressions of said observers almost paralleled those of the individuals who had conducted the interviews.

This reinforces that not only do you have just one chance to make a positive first impression, you have precious little time in which to do it, and you'd better be aware of all signals you're sending, to boot.

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*The Definitive Book of Body Language* by Alan and Barbara Pease explains how body language is more influential in human interaction than the spoken word, bringing home the importance of ensuring your mannerisms and movements are in sync with what you say.

#### Speak the right body language

While not as comprehensive as the knowledge contained in the Peases' book, the following tips can help you make better first impressions. Let's assume you're heading into an interview or meeting with a new client.

##### 1. Reception

Be sure to remove your coat upon arrival. Keep your arms as free as possible, as clutter will make you appear disheveled, and items could possibly tumble. Receptionists will often urge you to take a seat, keeping you out of their line of sight to avoid having to interact with you. The Peases recommend standing instead with your hands behind your back to show confidence.

This body language is a constant reminder that you are still waiting. I have to admit this seems awkward, but it makes sense. Constantly convey a confident body image. If you're too relaxed, you won't leave a strong impression about you or your business.

##### 2. Entry

Your entrance tells everyone in the room how you expect to be treated. Walk in without hesitation. Do not stand in the doorway or change your speed when entering. Shifting gears or shuffling upon entrance conveys a lack of confidence.

##### 3. Approach

Walk directly and confidently across the room, even if the person you are meeting with is on the phone, going through a drawer or tying shoelaces. Put your belongings directly on the table or desk, if possible, and take a seat. This lets the other person know you are accustomed to walking into offices and that your time is as valuable as theirs.

##### 4. Handshake

Keep your palm straight and return the pressure you receive. Let the other person decide when to end the handshake. Never shake someone's hand across a table. Instead, step to the left of the desk or table to avoid being given a palm down handshake. Also, use the person's name twice within the first 15 seconds to show you appreciate the meeting and are ready to get down to business.

##### 5. Position

If you have a choice, sit in a chair of comparable



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## Education

height to the person you're meeting. If you must sit in a low chair directly facing the other person, turn it 45 degrees away from the individual to avoid being stuck in the "reprimand" position. If the chair is immobile, simply angle your body instead.

It's an extremely positive sign if you're invited to sit in an informal area of the office; about 95 percent of business rejections are delivered from behind a desk. Remember to sit at a 45-degree angle to the person you're meeting with.

### 6. Gestures

People who are cool, calm, and collected are in control of their emotions and use clear, uncomplicated and deliberate movements. Higher-status individuals use fewer hand gestures; it is an ancient negotiation ploy. Mirroring the other person's gestures and expressions, when appropriate, also helps leave a strong impression.

### 7. Distance

Respect the other person's personal space, which will be largest during the opening minutes of the meeting. If you move too close, the person will

respond by moving back, leaning away or using repetitive gestures. As a rule, move closer to familiar people but further back from new acquaintances.

Men generally move closer to women they work with, while women generally pull further back when working with men. People of similar age generally work in closer proximity, while those with significant age differences tend to keep a greater physical distance.

### 8. Exit

When the meeting is over, pack up your belongings calmly and deliberately, not in a frenzy. Make sure to shake hands again, turn and walk out. Close the door if it was closed when you arrived.

And take this adage to heart: it's not what you say; it's how you say it. 🗣️

*Nicholas Cucci is the Marketing Director for Network Merchants Inc. He is a graduate of Benedictine University. Prior to joining NMI, Mr. Cucci worked in the payment processing division for a Fortune 500 company and has advised several large retailers on credit card fraud protection, screening and risk assessment. He can be reached at [ncucci@nmi.com](mailto:ncucci@nmi.com) or 800-617-4850.*



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# 10 years ago in The Green Sheet



## HPS buys out Heartland Bank

In May of 2000, Heartland Payment Systems Inc. dissolved its relationship with Heartland Bank. The two organizations agreed to end their partnership on all levels, except to establish a servicing agreement for mutual merchant customers and to develop a mutual agent bank servicing relationship. Princeton, N.J., became the new headquarters for HPS.

## Electronic check conversion escalates

NACHA – The Electronic Payments Association reported that between January 1998 and January 2000, the number of check conversions grew from less than 50,000 per month to more than 1.5 million monthly. During the same period, the number of business locations signed up for check conversion grew from 515 to 24,656.

## S&S Bankcard enters e-commerce

Coinciding with the emergence of the dot-com era, merchant service providers such as S&S Bankcard Systems added new services for this burgeoning sales channel. S&S introduced its fully integrated e-commerce solutions for businesses engaged in Internet commerce.

The Green Sheet  
was  
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# NewProducts

## Check guarantee on the go

**Product:** EZVerify

*Company:* EZCheck

**B**uoyed by the emergence of digital payment channels, checks have enjoyed a resurgence of late. This meeting of an old-fashioned payment device with new technology will continue as checks are adapted to smart phones, devices that are driving the new payments frontier. A product called EZVerify, from check services firm EZCheck, is helping to spearhead this latest phase in check acceptance.

EZVerify is a web-based check authenticator that runs on Internet-enabled mobile phones. Mobile merchants can use the service to verify the authenticity of a check and secure a guarantee of payment.

"It runs on basically any phone that can access the Internet," said EZCheck Senior Vice President Don Singer. "The nice thing about using it on the iPhone in particular is you can set your little icon so you can click directly on it, enter your pass-code and breeze into the system."

Users of the service still need to deposit a paper check as they would normally, but with EZVerify they needn't worry so much about whether it might clear. The service validates a check based on several determinants, including the existence of an active bank account and the check payment history of the purchaser (a history of bounced checks can preclude the guarantee).

### Guaranteed payment

Checks that are approved receive a guarantee stamp from EZCheck, which will pay the cost of any guaranteed check in the event that it's rejected for insufficient funds or some other reason.

"We check a couple of different databases to verify there are no bounced checks [in the purchaser's banking history], that it's a legitimate check, that it's an open account, and then based on that, we approve it and take the risk on ourselves," Singer said. "If we're wrong, [the merchant] sends that to us and we reimburse them."

"To the user, what they care about, if the guy's a plumber at somebody's house and they want to give him a \$400 check, what he gets out of the deal is he knows he's going to get paid – if not by the customer, then by us."

Users of EZVerify sign into EZCheck's merchant web portal with a username and password. The program requires that they enter at minimum two pieces of information:

Features of **EZVerify** include:

- Check verification for mobile merchants
- Multifactor authentication
- Guaranteed payment for merchants
- Back-end authorization in less than a second
- Program integration with other EZCheck services



the check amount and the check's Magnetic Ink Character Recognition number, which contains the purchaser's bank account and routing numbers. Singer said the service gives merchants the option of requesting additional information as well.

"There are a few other fields merchants can use but that don't have to be used," Singer said. "We may request a driver's license number, or they may want to input a work order number or something like that."

Once the information has been entered and submitted, the back-end authorization process takes less than a second, Singer said. If the check is verified, an authorization number appears on the screen for the merchant's records.

### Robust online portal for record-keeping

Singer said EZVerify can be run in conjunction with EZCheck's other online check services, allowing merchants to maintain and view comprehensive payment acceptance records within a single web portal. "This is for paper check authorization, but the portal is the same portal we use for checks by phone and for recurring [automated clearing house] transactions," he said. "The portal is more robust and has online reporting all built into it."

EZCheck Chief Executive Officer Randy Rutledge added that check guarantee is particularly helpful for mobile merchants since cell phones mostly lack the risk-mitigating remote deposit capture capabilities of conventional POS networks.

"With a PC you have ports where you can plug in peripherals," Rutledge said. "You can plug in a check reader or a scanner, and with those two devices now you can read the check electronically, which is required by [NACHA – The Electronic Payments Association] to actually convert that and move funds electronically."

## NewProducts

"They haven't invented the smart phone yet that's able to support the necessary peripherals to read the magnetic ink ... So you are constantly looking for additional markets, and this is another way to tap into the [mobile merchant] markets – like the tradespeople, working routes, working out of their truck – or at the flea market where you don't have access to landlines and whatever else." ■

### EZCheck

800-797-5302  
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## Easy to use, hosted gateway

### Product: Fusebox

Company: Elavon Inc.

**F**usebox, a hosted payment gateway service from processing giant Elavon Inc., continues the trend of outsourcing merchant payment information to third parties in the data breach era.

Data is statistically most vulnerable when housed in the merchant environment, an issue that more and more mer-

#### Features of Fusebox include:

- Outsourcing of merchant data to firewalled storage
- Tokenization for recurring billing, chargebacks
- Only a single certification required for merchants with more than one processor
- Real-time updating of batch management and reporting through online portal
- Streamlined and simplified system upgrades and location additions

chant service providers are addressing by removing the data from that space.

The Fusebox gateway service places merchant data within Elavon's firewall-protected repository. The data is then tokenized, with the merchant receiving a token attached to a truncated card number for use in returns and recurring billing.

### Beyond rigorous standards

This and other forms of interfacing are at the heart of the Fusebox system, which is set up to maximize the



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ease with which merchants connect to and communicate with Elavon and other payment chain partners. The gateway, Elavon said, "exceeds the most stringent" Payment Card Industry (PCI) Data Security Standard (DSS) and Payment Application DSS requirements and industry compliance standards.

Batch management and reporting are done through an online portal, updated in real-time as transactions go through, and made instantaneously available to and viewable by merchants when they sign in.

According to Elavon, Fusebox also features a standardized application program interface (API), which supports a variety of message formats and allows for seamless integration with a range of different POS systems and payment options.

Those include a variety of credit and debit cards, gift and prepaid cards, and digital check payments.

#### **Certification made easy**

Fusebox also streamlines the process of certification with other payment processors by functioning as sort of go-between certifier.

Merchants who connect with multiple processors need

only to be certified with Elavon's gateway, rather than having to undergo a separate certification for each processor they connect with. When they do sign up with new processors, merchants are certified by virtue of their connection to Fusebox.

Fusebox's API framework quickens and simplifies the process of adding new locations and making system upgrades, its makers said. Elavon also offers a 24-hour call-in support network for subscribing merchants.

"Elavon recognizes that payment processing is a mission-critical function for our customers and that it is becoming increasingly complex to keep up with the ever-evolving requirements," said Stuart Harvey Jr., CEO of Elavon.

"We've invested in the expansion of our gateway product offerings to help businesses better manage the risks and costs associated with data security and PCI compliance, while extending the flexibility necessary to enable payments across a global enterprise." ■

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# Inspiration

**WaterCoolerWisdom:**

**Knowledge is a treasure, but practice is the key to it.**

- Thomas Fuller

## Dig for gold, revisit your portfolio

**W**hen you hear the term gold mine, you might think of discovering something new, like buried treasure. But as far as your business is concerned, there's a gold mine that you've tapped into before and should revisit often to reap even greater benefits.

This treasure trove is your current customer base. The merchants in your portfolio are a prime source of "gold" for your business. But you may be neglecting them as you focus on boarding new merchants, acquiring new portfolios and expanding your product offerings.

Merchants might get tired of endless sales pitches, but they never tire of receiving friendly follow-up calls to be sure your products and services work to their satisfaction. They will never tire of receiving the occasional thank you note. It's the little things that will make a huge difference in your customers' eyes.

### **Cost effective treasure**

The truth is that it costs much less in time and effort to keep customers than to gain new ones. Keeping

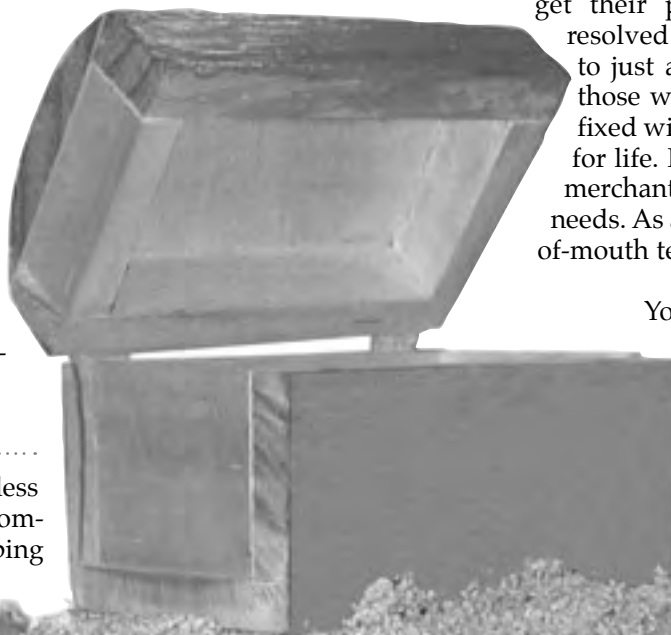
merchants sticky involves great customer service and helping them sustain and grow profitability. Upselling them on faster terminals or a loyalty program that employs text messaging are ways to maintain that positive relationship with your merchants.

These selling opportunities take less work because your existing customers already know and trust you. It takes less paperwork and time entering their data because you already have their information in your database. To find new customers, you have to spend money on advertising, mailings, sales presentations, phone calls and so forth to make that first sale.

### **Wealth through relationships**

One thing is certain: unhappy merchants who never get their payment processing problems resolved will report their displeasure to just about everyone they know. But those who once had problems that you fixed will likely be your loyal customers for life. In addition, they will tell fellow merchants to use you for their processing needs. As a new business generator, word-of-mouth testimonials can't be beat.

Your true value to your customers is often defined by how well you take on the role of problem solver. Once you solve a problem, make sure to cement your success by following up with a phone call to ensure your customer is satisfied.



Like doctors, plumbers, electricians, repairmen, advertising agents and web designers, ISOs and merchant level salespeople are in a service-oriented industry. It is important to be "up close and personal" with your clients and to always follow up with them.

### The Midas 'touch'

It's simple to keep in touch with your customers, and the benefits are tremendous. Start a newsletter by mail, or a permission-based e-mail campaign, in which you offer tips as well as resources and special offers. You can send out the newsletter once a month, or even once a week for e-mail newsletters.

Another way to stay in touch is through direct mail. Send special offers with coupons in a letter or on a postcard. These should be sent at least quarterly to keep your business name in the forefront of your customers' minds. Also, sending personalized greeting cards on holidays, or even on customers' birthdays and anniversaries, provides a way to keep relationships fresh and positive.

### Bright and shiny referrals

You can maximize profits by asking for referrals. Write a letter to customers announcing your new referral program. Provide a gift coupon for each referral received.

Each customer who refers someone to your company can receive a letter with a referral gift certificate. This could be a percentage rebate on a month's processing fees or a discount on their next purchase of POS printer paper rolls.

The key is to offer an incentive for referrals. On your website add a "Tell a friend" e-mail form, or provide a way for subscribers to recommend your newsletter to others. The newsletter gives you an open door to stir up new business.

### Found treasure

The foundation of all successful ISOs is in their portfolios. Every happy, contented merchant adds to your treasure in many ways, through residuals, referrals and word-of-mouth. So treat your merchants as you would treat rare coins and jewels you dream of finding in that legendary chest of buried treasure. But the gold in your portfolio isn't a dream; it's reality. And you don't need a treasure map to find it.

Good Selling!<sup>SM</sup>



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#8: *Ski the Alps*



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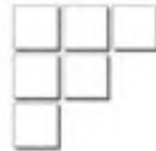
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