The Green Sheet

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Think technology and loyalty for the holidays

Capturing the all-important consumer spend this holiday season will be challenging for brick-and-mortar merchants faced with value-conscious shoppers equipped with product information from the Internet well before they set foot in a store. However, while technology has changed the context of commerce, the new landscape offers rewarding opportunities for merchants to connect with consumers on a personal level.

The prevailing theme emerging among forecasters for the approaching 2010 holiday period is cautious optimism. According to Deloitte LLP's retail group, from November 2010 through January 2011, total holiday sales are expected to reach $852 billion, excluding vehicles and gasoline. Deloitte's projection reflects a gain of 2 percent over the same period last year. The company expects much of that growth to come from online and nonstore sales.

Taking a similar stance, the National Retail Federation projects a 2.3 percent year-over-year increase in sales for November and December 2010, compared to just 0.4 percent for the same two months in 2009 and a decline of 3.9 percent in 2008. Even then, year-end holiday sales for 2010 could fall short of the $452.79 billion posted in 2007 before the recession hit.

Aligning technology initiatives

Industry experts agree that harnessing technology is increasingly critical for the long-term survival of small and midsize brick-and-mortar establishments. And many retailers acknowledge the importance of technology as evidenced in a report published by *Forbes/Insights*, in association with CIT Group Inc., titled *U.S. Small Business and Middle Market Outlook 2010 – Retailers and Their Suppliers: Smarter. Leaner. Cautiously Optimistic.*

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NotableQuote

Acquiring is no longer a business that can be sustained by interchange. Like most other aspects of banking, it's a business built on relationships.

Inside this issue:
CONTINUED

WINNER
41 Awards in 9 years
Green Sheet, Inc. — Winner
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in print and online – 9 consecutive years.
Plus, Grand Awards in 2004, 2005, 2006, 2007 & 2008.

Forum

Providing contact information

I just signed up for *The Green Sheet* and have a general question. Is there any way possible to obtain contact info for, say, one of the industry leaders (Jim Baumgartner) you list on your site?

Christos Vrahnos
New subscriber

Christos,

Welcome, and thank you for subscribing to The Green Sheet. *I hope our publications will keep you informed and thriving in your payments industry career.*

Sorry, but we do not have contact information for Jim Baumgartner, President and Chief Executive Officer of Moneris Solutions (whose profile appeared in The Green Sheet, *June 23, 2008, issue 08:06:02). Try calling Moneris toll-free at 866-666-3747.*

Editor

Who's on top now?

I was hoping you could help me with a question. I was wondering who the 10 leading financial processors are; that is to say, No. 1, First Data; No. 2, Fifth Third, etc. This information would be helpful.

Jason A. Collins
Payments Your Way LLC

Jason,

We do a report on acquirers in the December issue of our quarterly, GSQ, each year. The link to our December 2009 issue, 2009 acquirers report: Creating order from chaos is www.greensheet.com/gsq_pdfs/gsqv12n4.pdf. We are in the process of doing research for our December 2010 GSQ, which will contain up-to-date rankings for the top acquirers. Until we're done with that, the December 2009 report contains the latest data we have. I hope this is helpful to you and to others who may be curious about who the leading acquirers are.

Editor

From GS Online's MLS Forum

The premier online network for payment pros

Attendance at regional tradeshows

MLS Forum member **PAYMENTLOGISTICS.COM** was trying to decide whether to attend the Western States Acquirers Association meeting, which took place Oct. 13 and 14, 2010, as an attendee or an exhibitor, so he began a discussion thread "WSAA attendance breakdown" by posting the following question:

"Who attends WSAA and the other regional conferences? Is it mostly ISOs or do a lot of agents attend as well? Can folks who have been there in the past give me an idea of the number and makeup of attendees? I'm interested in who the attendees are – not the exhibitors."

Following are a few of the replies **PAYMENTLOGISTICS.COM** received:

"I go to almost every conference. Attendees tend to be a good mix of ISO and MLS. You will find more ISO and CEO level attendees at the ETA. … For the first time [you attend], unless you have someone manning your booth, you will miss the opportunity to really network and mingle. Could I suggest going as a roaming exhibitor? That way you can promote yourself while you walk around. Then have a booth set up in your suite to take meetings in. You meet more people that way and have a better chance to see what your competitors are doing." – **FASTTRANSACT**

"Maybe I am the naysayer, but the fact is that exhibitors seem to greatly exceed the number of potential 'customers' at every regional show. I have been to many off and on over the past five years and have to say that the cost of attendance far outweighs the benefits of the show to me. If you are new, it may be worth going to one or two. But don't expect a quantum leap in production." – **CLEARENT**

"We'll be there. The regional shows usually have a good mixture of ISOs and Agents – a lot more MLSs walking the floor than at the ETA. Being an exhibitor is well worth it if you're looking for agents and have a good product to offer them." – **GRP_FUNDING**

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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.

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News

PCI SSC's latest: P2PE guidelines

The PCI Security Standards Council released new guidelines for payment organizations considering the use of a point-to-point encryption apparatus to protect cardholder data. Observers say the guidelines may significantly reduce the scope of Payment Card Industry (PCI) Data Security Standard (DSS) compliance for merchants.

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News

An ETA teach-in at Capitol Hill

What is interchange? How can I differentiate between a signature debit card and a credit card? What's the difference between a card issuer and an acquirer? These are just a few of the questions the Electronic Transactions Association set out to answer for federal and congressional staffers at an Oct. 1, 2010, educational briefing on Capitol Hill.

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News

ALDI breach may highlight fraudster M.O.

A grocery store chain with stores in the Midwest and East Coast affirmed that tampered POS terminals had been placed in its stores in 11 states, leading to the unauthorized capture of customer payment card information. Officials are trying to figure out how it happened.

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Education

Street Smarts℠: Making VAR relationships work for you

Differentiating through value-added resellers (VARs) raises one big issue: success criteria for VARs are different from yours. VARs want to partner with as many providers as possible, thereby increasing the competition in your niche. Your goal is to bring on merchants profitably and directly. But what if you could develop an exclusive relationship with a VAR?

QSGS

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Education

Think before you send

In the world of high-speed communication, email is the new letter, and texting is the new email. It's part of our changing views on formal and informal correspondence. Rules of engagement for sending and receiving digital messages are easy to follow, so why are they often overlooked?

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Education

Budgeting: A crucial management skill – Part 2

Establishing a budget and adhering to it isn't easy, but it's the best way to make sure your money goes where you need it to go. It is important to create a realistic budget, and if you do a good job developing your budget using down-to-earth figures and assumptions, amendments will be few and far between. This article provides a step-by-step guide to assist you in creating your budget.

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Education

HIPAA and PCI: How do they compare?

Control measures are one of the most important parts of maintaining secure business practices. The human element is the hardest part to control. This is where PCI DSS compliance, as well as Health Insurance Portability and Accountability Act compliance, come in to play.

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Inspiration

Opening doors through community service

Winston Churchill said, "We make a living by what we get, but we make a life by what we give." The relationships that develop from community service add value to one's quality of life. Yet don't be surprised if career advancement and a strengthened reputation are added benefits.

Industry**Update**

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NEWS

Stopping cyber criminals in their tracks

It's National Cyber Security Awareness Month. Do you know where your data is? (And who's reading it?) To advance data security knowledge, **3Delta Systems Inc.** published a white paper titled *Stopping Data Cyberthieves in Their Tracks*. 3Delta Founder and Chief Operating Officer Aaron Bills stated, "You must plan for a layered, deep-defense approach to secure your system, so that if one safeguard fails, other countermeasures can detect and respond to an attack. Toward that end, tokenization can be a formidable tool." The seventh annual National Cyber Security Awareness Month is coordinated by the National Cyber Security Alliance, the U.S. Dept. of Homeland Security, and numerous companies and organizations. **Visa Inc.** also marked the month by launching a website to help cardholders and small businesses protect payment card data and avoid scams. The site is located at *www.visasecuritysense.com.*

Possible VeriFone–Hypercom merger talks on hold pending earnings report

The board of **Hypercom Corp.** spurned a September 2010 unsolicited takeover bid from **VeriFone Inc.,** while holding the door open to further negotiations. VeriFone offered $5.25 a share, or $285 million, in cash for all of Hypercom's outstanding shares. The offer represented a 37 percent premium over Hypercom's closing price of $3.84 the day before VeriFone's offer.

Hypercom's rejection does not preclude a merger if the two companies can agree on terms – after Hypercom's earnings results are released Nov. 2. "The company has engaged in numerous detailed, good faith discussions with VeriFone in the belief that a combination at the right price could benefit its stockholders," Hypercom said in an Oct. 7 press release. VeriFone's public disclosure of the offer prompted Hypercom to file a lawsuit – which it subsequently dropped – for violating a confidentiality agreement stemming from 2009 merger talks. Hypercom dropped the suit so it could respond publicly to VeriFone's comments. Hypercom said it asked VeriFone to put off making the bid public until after Hypercom releases its third quarter 2010 results.

First National Bank of Omaha to issue Discover cards

The Discover card, from **Discover Financial Services**, advanced in its efforts to gain traction against **Visa** on the issuing side. The **First National Bank of Omaha** will begin issuing credit cards on the Discover Network in 2011. The multiyear agreement opens the door for additional direct, agent bank and co-brand issuing activities. First National already issues both MasterCard Worldwide and Visa credit cards. Kevin O'Donnell, Vice President of Credit Issuance at Discover, said "This relationship with an innovative, top-tier organization is a great opportunity to further develop our issuing business."

Haitian telecom, bank partner with relief agency

A wireless telecom and a bank in Haiti partnered with relief and development agency **Mercy Corps** to launch a mobile money system for Haitians. The joint effort between wireless operator **Voila**, a subsidiary of Trilogy International Partners LLC, and Haiti's **Unibank S.A.** is intended to spur recovery in the nation devastated by an earthquake in early 2010. The program allows recipients of Mercy Corps' cash-for-work, grants and food vouchers to use Voila phones as mobile wallets. If approved by Haiti's Central Bank, Voila and Unibank will add a broad range of financial services for the unbanked population.

BOTTOM LINES

HEADLINES FROM THE RETAIL WORLD

- In the **National Retail Federation**'s annual *Stores Favorite 50 Online Retailers* survey conducted by BIGresearch, Amazon.com Inc., Wal-Mart Stores Inc. and eBay Inc. ranked first, second and third, respectively. Consumer respondents evaluated price, product quality, return policies and free shipping.

- A *Convenience Store Foodservice Consumer Trend Report* from **Technomic Inc.** found that only 28 percent of consumers think convenience stores do well at offering healthy food items; 52 percent would prefer to see more healthy offerings and made-to-order foods like sandwiches (57 percent) and salads (50 percent).

- Data compiled by **Thomas Reuters Corp.** revealed that same-store sales for September 2010 rose 2.8 percent over last year for 28 retailers surveyed; 20 indicated same-store sales met or exceeded expectations even with cutbacks on promotions and sales.

ANNOUNCEMENTS

CyberSource lets e-merchants screen for fraud

CyberSource, a subsidiary of Visa, now allows Internet merchants to screen orders for potential fraud without introducing card data to their systems. Using a tokenization system, payment data goes directly onto the CyberSource payment network without coming into contact with merchant systems. Transactions run through the linked fraud system employing 200-plus merchant-designated tests assessing the risk of fraud.

EMG opens Tulsa branch office

Processor **Eliot Management Group** opened a branch office in Tulsa, Okla. With a strong presence in the Western United States, EMG reported it is expanding in the Midwest with this 26th office.

Glenbrook publishes payments book

Payment consulting firm **Glenbrook Partners LLC** published *Payments Systems in the U.S.*, written for payments professionals. Authors Carol Coye Benson and Scott Loftesness drew on material developed for Glenbrook's Payments Boot Camp. The book is available at *www.amazon.com* or *www.paymentsessentials.com*.

Heartland's E3 makes headway

Some 5,100 small and midsize businesses have deployed the E3 (end-to-end encryption) terminal from **Heartland Payment Systems Inc.** since its introduction in May 2010, the company reported. And in October, Heartland introduced an E3 magnetic stripe reader wedge for PC-based applications.

ISD marks 25th year

ISD Corp. celebrated its 25th anniversary as a provider of payments software. Its first client deployed the ISD payment switch software on an IBM POS system routing credit cards to Michigan National Bank.

Merchant Warehouse creates online resource

ISO **Merchant Warehouse** launched an online resource center with sales tools and thought leadership for merchant level salespeople (MLSs). At Merchant Warehouse University, outside experts share insights about the industry. The site does not require affiliation with the Merchant Warehouse Agent/ISO program and is located at *www.mw-university.com*.

PlaySpan gets PCI certification

Online and mobile payments provider **PlaySpan** was certified as compliant with the Payment Card Industry (PCI) Data Security Standard (DSS). The UltimatePay platform, which provides hosted payment services for online game sites and social networks, achieved Level 1 certification.

Super G lending to ISOs, MLSs

Super G Funding reported it has the capital to provide residual-based loans to "almost any" ISO or MLS. Loan amounts range from $25,000 to $1 million and can be repaid over 12, 24 or 36 months.

"Typically, ISOs try to get an SBA or business loan from their local bank or take out a home equity loan against their home, but this is very hard to do in today's economic climate," said Darrin Ginsberg, Chief Executive Officer of Super G Funding. "ISOs are having problems getting cash they need to grow their businesses, and I am happy to provide this funding to the industry that I grew up in."

Super G can also purchase portfolios, but before doing so, the company would endeavor to "educate the ISO on the long-term benefits of borrowing versus selling."

PARTNERSHIPS

AMK distributing for Charge Anywhere

AMK Ltda. now distributes POS systems from **Charge Anywhere LLC** in South America. Based in Ecuador,

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AMK began its distribution and support of Charge Anywhere products in that nation.

BofA Merchant Services, CRE pick First Data services

Bank of America Merchant Services LLC is offering the TransArmor service from **First Data Corp.** to its U.S. merchants. TransArmor replaces card data with tokens to prevent raw data from entering merchants' systems. BofA Merchant Services is a joint venture of First Data and Bank of America Corp. **CRE Secure Payments LLC**'s payment acceptance service was integrated with Global Gateway from First Data. Designed for online merchants, CRE Secure redirects online consumers to a PCI-compliant hosted payment page.

BluePay and Magneto partner

Tier 1 processor **BluePay Processing LLP** teamed with e-commerce platform **Magneto Inc**. The partnership connects Magneto's online merchants with BluePay's card processing and electronic bill payment services.

CoreLogic Credco runs credit checks for CurveNorth clients

CurveNorth Inc., a software supplier to merchant processors, partnered with **CoreLogic Credco**, a provider

of credit reporting services. CoreLogic Credco will deliver merchant prequalification and screening through CurveNorth's merchant management system.

TSYS and Cynergy take it further

Cynergy Data LLC and **TSYS Acquiring Solutions** expanded their partnership. TSYS became the preferred provider of authorization, settlement and dispute-resolution services for the New York-based provider of ISO services.

Online retailer adopts Mazooma debit service

CSN Stores LLC, an online retailer with 200 boutique merchants in its portfolio, integrated a debit option from **Mazooma Inc**. The service provides instant, bank-authenticated payment authorization. CSN Stores includes Cookware.com and Strollers.com.

Call center service provider turns to Trustwave

Datatel Inc. engaged **Trustwave** to provide its call center clients with PCI DSS compliance services. Datatel's hosted interactive voice response payment gateway connects call centers to North American card processors.

Fidelity Payment picks CheckAlt for RDC

ISO **Fidelity Payment Services** chose **CheckAlt Payment Solutions** to supply remote deposit capture and e-check services. The companies will exchange referrals.

Fifth Third Processing lands four Texas banks

Four Texas-based banks signed on with **Fifth Third Processing Solutions LLC** for ATM and debit card transaction processing and gateway services. They include **Granger National Bank**, **AimBank**, **Spur Security Bank** and **First State Bank of Bedias.**

Fifth Third turns to Bling Nation for mobile

Fifth Third Processing signed up for mobile payment capability from **Bling Nation**. Processing clients can offer the mobile services to debit card customers.

ID TECH adopts Voltage encryption

ID TECH implemented end-to-end encryption from **Voltage Security Inc.** with ID TECH's POS transaction devices, including smart and contactless card readers, signature capture devices and PIN entry products. The company also joined the Voltage SecureData Open License Program, simplifying the integration of encryption across payment systems.

MainSource Bank picks TransFirst

MainSource Bank chose **TransFirst** to supply payment

processing services for customers in the Midwest. MainSource has 83 branches in Illinois, Ohio, Indiana and Kentucky.

Partnership adds anti-virus software to card reader

NetSecure Technologies Ltd., maker of the SmartSwipe personal credit card reader, partnered with anti-virus software developer **BitDefender** to add additional layers of security for online transactions.

Canadian POS developer integrates with YESpay

Canadian POS software developer **Pacific Amber Technologies Inc.** integrated EasyV-Retail software from **YESpay**, enabling its AmberPOS customers to accept Europay MasterCard and Visa chip and PIN cards. Payments are settled through merchants' chosen card acquirers via YESpay's Emboss Bureau Service.

Pivotal, Westpac pick Hypercom terminals

Pivotal Payments purchased up to 33,000 Optimum countertop and mobile payment terminals from **Hypercom**. Pivotal will install the terminals at Canadian merchants over the next three years. And Australian financial services company **Westpac Banking Corp.** is

deploying 15,000 countertop terminals from Hypercom to merchant clients. Westpac and Hypercom signed a five-year agreement.

SafetyPay expands through Brazilian processor

Online debit payments software provider **SafetyPay Inc.** expanded into Brazil through payment processor **Braspag**, guaranteeing SafetyPay's presence in e-commerce organizations in that nation. Braspag processes for 80 percent of e-commerce retailers in Brazil.

TMG turns to ADT for ATM anti-skim technology

The Members Group agreed to offer anti-skimming technology from **ADT Security Services Inc.** to arm TMG clients' ATMs against fraud. The technology may include surface sensor devices that trigger video surveillance or silent alarms, and electronic anti-skim jamming devices.

ControlScan provides PCI compliance to TransFirst merchants

TransFirst partnered with **ControlScan Inc.** for PCI compliance services. Merchant clients of TransFirst have access to ControlScan's vulnerability scanning, self-assessment questionnaires and training.

Hispanic CC partners with Heartland

The **U.S. Hispanic Chamber of Commerce** endorsed **Heartland** as its exclusive provider of payment card processing services. The organization is an advocate on behalf of Hispanic businesses.

Walgreens chooses Accertify

Drugstore chain **Walgreen Co.** turned to **Accertify Inc.** for a system to prevent credit card fraud in online sales. Accertify's Interceptas platform processes in real time and allows merchants to control fraud-prevention tools.

ACQUISITIONS

BlueStar buys Danish POS distributor

POS and security technology distributor **BlueStar Inc.** acquired Danish electronics distributor **Elma Pos & Data A/S**. The target company represents manufacturers of POS, kiosk, automatic identification and data capture technology.

Datacard snaps up DCS

Card issuance leader **Datacard Group** acquired **Dynamic Card Solutions LLC**, a provider of instant issuance software for financial card programs. The merger expands Datacard's portfolio of issuance software for banks, credit unions and retailers.

IndustryUpdate

APPOINTMENTS

BlueStar Latin America appoints two

BlueStar made two recent appointments. **Cesar Camacho** was promoted to Business Development Manager for the Latin America division. Additionally, the company hired **Jonathan Abad** as Business Development Manager for Motorola products in the same division. Previously, Abad was General Store Manager at AIA Enterprises Inc.

Merrick hires Crawford, promotes two

Merrick Bank appointed **Charles S. Crawford** Senior Vice President of Business Development for its Merrick Merchant Services unit. Most recently, Crawford was Executive Vice President of Strategic Development at Electronic Payment Exchange.Concurrently, Merrick promoted **David Herzfeld** to Senior Vice President and Chief Operating Officer of Merchant Services. **Lisa Kenney** was promoted to Vice President of Merchant Services.

Fasano joins ControlScan

PCI-compliance service provider ControlScan Inc. named **John Fasano** Chief Financial Officer. Previously, Fasano was CFO at FirstView LLC.

Magley joins EMG

David Magley joined Eliot Management Group as General Manager. He was a regional sales executive at Lynk Systems/RBS Lynk (now RBS WorldPay) and Moneris Solutions Inc.

Posdata appoints McCord

Posdata hired **Peter McCord** as Eastern Regional Sales Manager for the Payment Terminals Group. McCord previously worked in sales and support at Hospitality Systems Inc.

Milligan joins Identity Theft 911

Identity Theft 911 appointed **Michael Milligan** Senior Vice President of Sales. Most recently, Milligan worked for startups EagleEye Analytics Inc. and Acxiom Inc.

Miner to lead business development at 3Delta Systems

Hosted payments software provider 3Delta Systems hired **Daniel L. Miner** as General Manager of Treasury Services. He will lead business development.

Miner was a principal at management consultancy Treasury Strategies Inc.

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Interchange: Matching loyalties and realities

By Patti Murphy

The Takoma Group

Are card payments under attack? It's beginning to look that way. First came the 2005 out-of-court settlement by MasterCard Worldwide and Visa Inc., in what has come to be known as the Wal-Mart suit, in effect admitting that retailers had been overcharged interchange.

Then there was the Durbin Amendment, that pesky requirement added to the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act that gave the Federal Reserve Board authority over debit interchange.

Now comes news that Visa and MasterCard reached a settlement with the U.S. Department of Justice that deep-sixes long-standing prohibitions against merchants steering customers to alternative methods of payment.

This is not the first time Visa and MasterCard have been on the receiving end of DOJ investigations. In 2001, the DOJ won a long-running case that challenged rules prohibiting MasterCard and Visa member banks from also issuing nonbank cards, like Discover Financial Services' card.

Optimistic retailers

Retailers were jubilant upon learning that Visa and MasterCard had capitulated to DOJ demands that they eliminate rules and practices that block merchants from offering discounts for cash or lower-cost card transactions. (The celebration was tempered somewhat, however, by news that American Express Co. would fight the DOJ in federal court rather than sign off on a similar agreement.)

Mallory Duncan, Senior Vice President and General Counsel at the National Retail Federation described the Visa and MasterCard settlements as a "landmark step" in retailers' efforts to force changes in the interchange pricing model. "Allowing merchants to offer a discount for lower-cost forms of payment will begin to inject competition to the credit card market," Duncan insisted.

Of course, counter-arguments could be made that the DOJ settlement will actually take the steam out of retailer efforts to coax additional interchange legislation, since retailers now have the power to promote cheaper methods of payment, like debit cards.

Retailers are allowed under a decades-old federal law to offer discounts for cash and other preferred methods of tender at the POS, but card company rules have made it exceedingly difficult for retailers to do this. In retrospect, it would seem those rules did more harm than good by fostering an "us and them" mentality between retailers and the card companies.

Competing arguments

Listening to retailers rail against restrictive card brand rules for the last 15 years, and the responses from Visa and MasterCard, I've been reminded of a skit Lily Tomlin often performed on the 1960s sketch comedy television series *Rowan & Martin's Laugh-In*.

She played an obnoxious telephone operator named Ernestine who would often respond to complaints about service with a terse, "We don't care; we're the telephone company." Tomlin was expressing a sentiment we can still appreciate today: people get grumpy when choice gets bulldozed by corporate greed.

I've listened to the arguments presented by the card brands, too, and I'm not convinced as they are that retailers can or should look at card acceptance as just another business decision, especially when one considers the restraints on using cards in ways merchants may want to in order to stoke business (for example, discounts for cash).

If a clothing brand came along and offered a merchant a line of dress shirts on the condition that the merchant never sell the items at a discount, the merchant could refuse the deal and walk away with minimal (if any) consequences.

It's not the same with bankcards because Visa and MasterCard have spent billions of dollars over the years convincing consumers that it's better, faster and smarter to pay with plastic than it is to use checks and cash. This, in turn, has created a consumer expectation that every merchant accepts cards for payment and a sense of diminution for those that don't.

Trickle-down savings

This argument seemed especially disingenuous when in 2005 the brands revamped interchange rate schedules to maximize interchange on particular types of cards (for example, those tied to rewards programs), making it ever more difficult for retailers to control their transaction costs.

Retailer assertions that interchange intervention is pro-consumer are equally disingenuous. "This is a huge win for Main Street merchants and consumers," Tom Robinson, President of Robinson Oil Corp.'s Rotten Robbie's gas station and convenience store chain, was quoted as saying in a press release from the National

Association of Convenience Stores following the Oct. 8 news of the settlement.

Yeah, like the savings that accrue to retailers from reductions in card processing costs will show up at the checkout, not just on the companies' bottom lines.

I recall a retailer being asked during a Federal Reserve Bank of Chicago seminar a few years ago if he could quantify consumer savings were interchange to be reduced. He responded that it wasn't easy to quantify and suggested any savings might be too insignificant an amount. It might, for example, only move the price of a soda from $1 to 99 cents, he noted.

New interchange paradigm

Interchange has always played an important role in card payments. And until the two brands went public, interchange at both Visa and MasterCard was set by panels of bankers, because, after all, these were bankcard associations. Now that MasterCard and Visa are publically traded companies, bankers have little direct input into the decision process; only about half of the members of each company's board are affiliated with banks.

Can anyone tell me why it is, then, that acquirers and ISOs continue to place their loyalties behind Visa and

MasterCard? These companies may run the networks that authorize and settle bankcards, but MasterCard and Visa are no longer bankcard companies; their loyalties are to stockholders.

It's time for banks and their partners in the card sector to take control of the interchange debate.

Acquiring is no longer a business that can be sustained by interchange. Like most other aspects of banking, it's a business built on relationships. Successful relationships come from well-rounded product and service offerings and good uptimes.

Acquiring is about being available to customers 24/7. It's about thinking ahead – for ways you might help clients grow their businesses, save on processing fees and improve cash flow.

Pricing is and will remain for the foreseeable future a sensitive issue with retailers. But if you're giving clients excellent service, treating them fairly and understand their business issues, most will not change providers to save a few basis points on card processing.

Patti Murphy is Senior Editor of The Green Sheet and President of The Takoma Group. She is also the founder of InsideMicrofinance. com. Email her at patti@greensheet.com.

View

Does PayPal's new offering actually mean anything?

By Ron Osborne

Salus-Novus Inc.

There is no question that PayPal is a strong company, and growing. As a pioneer in viral marketing and payment processing, PayPal has been influential in many areas and has served as the go-to model for many a startup wanting to tap into the company's successful model.

PayPal's operations center in Omaha, Neb., has grown tremendously over the years. As an employer, PayPal has been great to the city, and it offers fair wages and benefits to its employees. In the Omaha metropolitan area of nearly 1 million people, you'd be hard pressed to meet someone who didn't have a friend, family member or acquaintance who worked at PayPal.

PayPal's newest offering, tapping into remote deposit capture (RDC) via smart phones, can be seen as a natural and neat extension to its core product line, but it can also be seen as a colossal failure. How can that be?

Failure one: Timing

In 2005 and 2006, when the groaning, sputtering, oil leaking, smoking, rusty, snail-paced machine that is the world of core processor-based RDC software began being adopted by banks, I approached PayPal about adopting RDC as a full-fledged product to its core line.

The stakes were high. Not only could the company have taken its tens of millions of active U.S.-based merchants by storm, it could have completely shut out many banks and the entire ISO market as well.

After a few weeks of conference calls and conceptual discussions, I was able to secure an in-person meeting with the top engineers dedicated to virtual terminal solutions there to discuss RDC and its implications for PayPal.

Although the engineers expressed genuine interest in augmenting PayPal's product line, the conversations turned more toward the remotely created check (RCC) solution. Unlike RDC, where actual checks are scanned, in RCC the magnetic ink character recognition (MICR) line, payee info, payor info, date and amount are entered via web-form and passed into an image-creation engine; then, using the MICR font, a check image is created.

This image is then used as a source document in an X9.37 file and deposited with a pre-formatted signature, stating a standing authorization is on file with the merchant. Having seen some RCC solutions live, I offer you this advice: avoid it like the plague; actually, some people survived the plague, so avoid it like you'd avoid licking public door handles.

I felt it was clear that the issue for PayPal was primarily hardware related. I can imagine the conversations that took place in company headquarters about RDC.

At the time, great hardware providers like DCC, Panini and Canon hadn't reached economies of scale and advancements that led to today's fair pricing. I think the perception was that RDC would have been too expensive to offer to the normal PayPal merchant. Issues like support and implementation were also daunting, considering PayPal's experience was minimal at the time.

Failure two: ISOs

It's no secret that most ISOs do not like PayPal. The company's brand is strong with consumers (through the smart sale to eBay Inc.), and PayPal has achieved good penetration using its virtual terminals and other product lines.

PayPal's pricing, however, is much higher than what mid- to super-sized ISOs can offer, and most consumers or businesses have no idea about things like BIN fees, interchange rates, qualified versus mid-qualified versus nonqualified rates, and how to actually cut processing costs substantially.

The "simplicity" of the PayPal rate structure can be attractive to some. The failure is that during the six years since RDC's inception and the announcement of PayPal's smart-phone-based RDC product, ISOs and financial institutions (FIs) have gained significant ground in technologies available and have become very competent and knowledgeable in RDC sales and implementation. Most ISOs now know what an X9.37 file is and what qualifies as an item eligible for ACH conversion and what does not.

At RDC's inception, PayPal could have used its extensive and trusted brand to capture a huge portion of the U.S. merchant base, nearly at will. Long before ISOs really knew the product, PayPal had already been an established and large third-party service provider (TPSP) capable of including X9.37 file settlement into its product line.

PayPal could have even taken the lead and marketed its product to ISOs since many FIs at the time refused RDC, and TPSPs hadn't incorporated it yet.

The competition is much more fierce than it might have been had PayPal become an early adopter, rather than waiting for a cell phone to serve as the hardware. Leasing was available at the time; even per-item charges and clicks could have been used to offset the hardware

View

Not a day goes by where I don't scratch my head and wonder why PayPal has been allowed to be the pre-eminent TPSP for consumer-to-consumer (C2C) payments.

charges. ISOs have been masters at that for years. Why didn't PayPal implement that strategy? Only those in San Jose know for sure.

Failure three: Banks

Not a day goes by where I don't scratch my head and wonder why PayPal has been allowed to be the pre-eminent TPSP for consumer-to-consumer (C2C) payments. ACH credits, pre-authorizations, multifactor authentication and identity validations are not new, not by anyone's definitions.

Why hasn't a Citi, Wells, BofA, Fifth Third, US Bank or other major U.S. FI created a competitive product offering to PayPal's? Their brands are far more powerful, and the viral nature of C2C payments would lead to a large influx of new accounts. It's coming. I can assure you.

Failure four: Paper checks

This failure is by far the most depressing. When the pre-eminent C2C TPSP spends millions in salaries, research, development and implementation of a service to cater to merchants that still receive paper checks, it's a sign that paper isn't going away anytime soon. I see it as PayPal "throwing in the towel" and giving in to the power of the check and the pen.

PayPal is a great company with great products and a strong market share, but now that it is lurking in the shadows of the RDC world, preparing to take market share from traditional providers, what will your company do?

Will you get creative, uncover new and exciting technologies to license and push the boundaries of how you work with your customers to ensure they do not switch to PayPal? Or will I be writing an article like this about your company next year?

Ron Osborne is President of Salus-Novus Inc. You can reach him at ron.osborne@salusnovus.com.

YES!

MCC has a cash advance program for

every merchant.

STARTER PLUS	Gives advances to merchants with challenged personal credit or in high-risk industries
TRADITIONAL	Competes successfully against any other offers, with generous commissions, competitive terms and no restrictions on use of funds
GOLD	Rewards well qualified merchants with extended programs and lower factor rates
PLATINUM	Wins merchants who might otherwise turn to traditional funding sources
QSR	Offers fast, easy and generous cash advances to small ticket franchisees
MEDICAL	Enables expensive equipment purchases and office updates with guaranteed and expedited funding
PLUS	MCC will create a program for any vertical market – and help you sell it.

**Work with the cash advance company that works with ISOs.
Merchant Cash & Capital says YES.**

SellingPrepaid

Prepaid in brief

NEWS

Mercator: Prepaid load amounts to double by 2013

As part of its Seventh Annual Prepaid Card Forecast, **Mercator Advisory Group** predicts the total dollars loaded onto prepaid cards will reach $672 billion by 2013, more than doubling the $330.03 billion load volume in 2009. The reasons for this surge are increased government activity in the prepaid sector and growing consumer adoption of prepaid cards, according to Mercator.

Payroll card growth predicted

A September 2010 report from **Aite Group** entitled *Prepaid Debit and Payroll Cards: Winning in the Void* said the "prepaid debit and payroll card industry is destined for unprecedented growth, filling a void at the bottom of the consumer financial services market." Additionally, the **American Payroll Association** conducted its annual employee survey, *Getting Paid in America*, and concluded 68 percent of employees are "OK" with electronic payroll. Ninety-six percent of respondents were paid by direct deposit or paycards, the APA found; only 4 percent still received their pay by paper check.

CFSI seeks proposals for Underbanked Financial Services Forum

The **Center for Financial Services Innovation** is seeking presentation proposals for its 6th Annual Underbanked Financial Services Forum to be held in New Orleans on June 8 to 10, 2011.

As CFSI builds its agenda and forum sessions, it is looking for proposals focused on financial services for underbanked and unbanked consumers. The deadline to file a presentation abstract is Nov. 5, 2010.

ANNOUNCEMENTS

CashStar adds new capabilities

Digital gifting and incentives company **CashStar Inc.** added new functionality to its digital gifting platform. The additions are a virtual gift card optimized for smart phone-based, in-store redemption and a social networking component to the egift card that allows cardholders to send digital gifts to friends on social networking site Facebook.

FiCentive service allows loading from bank accounts

FiCentive Inc., the prepaid card subsidiary of Payment Data Systems Inc., released a new service that utilizes its existing electronic bill pay network to allow prepaid cardholders to load funds to prepaid cards directly from bank accounts.

ItzCash authorized to issue mobile wallet

Itz Cash Card Ltd., the prepaid card subsidiary of India's Essel Group, said it received approval from the Reserve Bank of India to issue a mobile wallet service. According to Itz Cash, the initiative is expected to increase the company's processing volume by 100 percent.

Social media app leads to gift card rewards

Application developer **JunoWallet** introduced a "social gifting" app for the South Bend Regional Airport in Indiana that allows social networkers to accumulate JunoPoints to be used for the purchase of goods and services, or $100 mobile gift cards at the airport.

MoneyGram pays down debt

Global money transfer firm **MoneyGram International** made a $30 million prepayment on its tranche B term loan under the senior secured credit facility, which brings the total of debt payments it has made since January 2009 to $277 million. MoneyGram said that amount represents a 28 percent decrease in the company's total outstanding debt.

Stripes c-stores get nFinanSe prepaid cards

Tampa, Fla.-based prepaid card provider **nFinanSe Inc.** launched its $3 reloadable prepaid debit cards at Stripes LLC convenience stores throughout the Southwestern United States. The cards are Visa Inc. and Discover Financial Services branded.

RegaloCard surpasses Western Union in El Salvador

Prepaid mobile payment company **RegaloCard** report-

ed it surpassed the number of Western Union in-country agent locations in El Salvador, the country where RegaloCard began operations. Gregory Keough, Chairman and Chief Executive Officer of RegaloCard, said the company's locations do not overlap with traditional money transfer providers.

Western Union to operate in Brazil

Money transfer specialist **The Western Union Co.** reported it received license approvals from the Brazilian Central Bank and President Luiz Inácio Lula da Silva to operate a commercial bank and foreign exchange brokerage firm in Brazil.

WISeKey offers service for underserved

In collaboration with international development agencies like the GSMA Development Fund, The Bill and Melinda Gates Foundation and Women's World Banking, mobile payment platform provider **WISeKey SA** said its platform is available to financial institutions, mobile operators, and e-commerce and catalog retailers to provide customers with a mobile payment option for unbanked and underbanked individuals.

PARTNERSHIPS

Angoss, Futura to offer loyalty and rewards

Predictive analytics system provider **Angoss Software Corp.** partnered with **The Futura Loyalty Group Inc.** for customer loyalty and rewards solutions.

The offering is designed to help Canadian retailers launch, manage and measure the effectiveness of customer and prospect reward/marketing programs, Futura said.

Cardlytics moving forward

Rewards marketer **Cardlytics** teamed with prepaid card company **AccountNow Inc.** to provide merchants opportunities to market to AccountNow cardholders and present offers based upon cardholders' spending habits.

In addition, Cardlytics partnered with **FSV Payment Systems Inc.** to add its first prepaid debit card portfolio to its customer base. FSV, which operates prepaid card programs in the retail, hospitality, health care, restaurant, payroll, government and other sectors, will now be able to provide Cardlytics' loyalty and rewards platform to its customers.

eBillme to offer Amazon.com gift cards

Online bill pay provider **eBillme** entered an agreement with **ACI Gift Cards Inc.**, the exclusive issuer of Amazon.com Gift Cards, to provide consumers a cash alternative for purchasing Amazon.com cards.

Parago to be Staples' incentives vendor

Parago Inc. extended its relationship with office supply chain **Staples Inc.** for five more years, with Staples naming Parago its primary incentives partner.

Through Staples Easy Rebates, Parago has been providing rewards programs that drive behavior and promote brand loyalty with consumers for a decade, Parago said.

Payzone, Arriva ink transit deal

Consumer payment network operator **Payzone UK** entered a three-year deal with public transportation agency **Arriva PLC** for a prepaid transit ticketing solution that will add more flexibility for transit riders in the way they pay for public transportation.

Yooopi!, VoiceCash to launch Procash

Austria-based prepaid calling card provider **Yooopi!** signed an agreement with international mobile money transfer specialist **VoiceCash** to roll out the MasterCard-branded Procash Card Austria.

ACQUISITIONS

Datacard acquires Dynamic Card Solutions

Datacard Group purchased Dynamic Card Solutions, an instant issuance software provider. The acquisition, which includes DCS' CardWizard software, expands Datacard's portfolio of end-to-end instant issuance solutions for banks, credit unions and retailers, according to the company.

Flint Telecom to buy two prepaid firms

Flint Telecom Group Inc. signed a letter of intent to acquire an unnamed U.S.-based international prepaid debit card company. This acquisition will allow Flint Telecom to supply unbanked U.S. residents with alternative financial tools, the company said.

Flint Telecom also said it intends to purchase a U.S.-based international remittance company to allow the telecommunications company to access the international market for mobile money transfers.

APPOINTMENTS

FNDS3000 expands Goldsmith's role

As part of the corporate restructuring of international prepaid card processor FNDS3000 Corp., Chairman **Raymond Goldsmith** was appointed to the additional posts of President and CEO, the company said.

Prepaid profile

Prepaid Solutions Inc.

Cards ahoy!

Among the most exciting aspects of the prepaid card industry is the pursuit of new, untapped markets. One such market exists on the high seas. Thousands of cruise ships, let alone container ships and other vessels, navigate the globe's waterways. Until now, crew members were largely paid with cash or checks. So a program that allows cruise ship workers to electronically manage their pay aboard ship seems a valuable and timely solution.

For the past several years, Prepaid Solutions Inc. (PPS) has been cultivating this market for prepaid cards. Ken Goins, Chief Executive Officer at PPS, said the overall size of the payroll card market for the domestic cruise ship industry alone is upwards of $2 billion, with the two largest cruise lines in the world – Carnival Corp. and Royal Caribbean Cruises Ltd. – accounting for the bulk of that volume.

One of the cruise lines PPS works with, Apollo Ship Chandlers Inc., operates about a half-dozen ships, with roughly a $30 to $40 million annual payroll, Goins said. That metric provides evidence of the size and scale of the market. "So it's a huge opportunity for us," Goins said. "If we were lucky to get even a small portion of that, it would be an enormous huge vertical for us to expand in the marketplace."

The coordination deep end

Goins said it has been a complicated, time consuming process to put in place the necessary partnerships and networks. PPS works with MTN Satellite Communications to provide global communications with the ships and with foreign exchange specialist Travelex for currency conversions and money transfers.

The Burr Ridge, Ill.-based processor has more than 10,000 Travelex OceanPay Visa Payroll Cards in circulation today and is in talks with several domestic and foreign cruise lines. "The coordination of all these things is what we think makes our product so appealing," Goins said. "We're not aware of any major competitors that have anything close to what we do. There are people that do have bits and pieces of these things. But nothing certainly as integrated as what we've done."

Other complexities of a maritime payroll card program involve legal requirements and security. PPS had to comply with the Merchant Marine Act of 1920, also called the Jones Act, which regulates maritime commerce in U.S. waters, as well as the Merchant Marine Act of 1915 (Seamen's Act), which affords legal protections to workers at sea.

Regarding security, reporting requirements for such workers far exceed those to sign up a customer for a general purpose reloadable (GPR) card, Goins said. More extensive background information, including passport information, needs to be obtained.

Additionally, the Visa Inc.-branded payroll cards are unembossed, meaning the numbers on the cards are not raised. Goins said "flat" cards reduce fraud; when stolen they cannot be used to make transactions on the old-fashioned imprinters, which are still used in many places around the world.

Because crew members work on a contract basis, they continually come and go. So PPS set up the on-board systems to allow for the encoding of the instant issue cards on site, Goins said.

Crew members manage their finances via computers on the ships, where they can transfer money in 35 different currencies and receive text message alerts via mobile phones, Goins said. Family members are mailed companion cards for person-to-person money transfers. PPS estimates that each ship employee can save as much as $50 a

month using the system, since they don't have to disembark at ports to use more expensive wire transfer services.

Other 'floating' verticals

Cruise ships are not the only vertical PPS is targeting. Commercial shipping operations do not employ the large number of people cruise lines employ, but there are tens of thousands of ships to provide scale, Goins said. Another vertical is oil rigs – about 5,000 of them worldwide, according to Goins.
.
"There is a large number of people working on oil platforms," he said. "It's very similar in a way to cruise ships, where [workers] sign onto a platform for three to six months, and they're paid by check or by cash – so the same sort of dynamics there."

Another untapped market is carnivals, where itinerant bands of carnies, performers and food vendors travel the country to put on fairs and sideshows.

Goins said PPS' maritime payroll card program represents only about 10 percent of the company's business, with the largest part of its revenue coming from GPR cards available at check cashing stores.

"We obviously are not the 800-pound gorilla in payroll processing," he said. "We try to find other variations of those types of applications and be successful in specialized niche verticals, which we think is probably the best thing to do to be successful in the short term and then grow from there."

Feature

How regulations can help prepaid

With federal and state regulators now focusing on the prepaid card industry, Mercator Advisory Group LLC hosted an August 2010 webinar that analyzed the regulatory landscape for its effects on the industry. Mercator concluded that prepaid card providers can benefit from regulation by thinking creatively about how to work with and around the requirements.

The webinar, *Prepaid Regulations: A Framework for Asking the Right Questions*, which arose out of Mercator Senior Analyst Ben Jackson's report of the same name, focused on possible positive outcomes of regulation.

Dodd-Frank

For example, the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act prohibits prepaid card providers from charging overdraft fees and requires free withdrawals from ATMs in certain situations, Jackson said. While those specific outcomes from the act received the most attention, two other provisions may represent opportunities, according to Jackson.

One mandate from the Dodd-Frank Act is to improve access to financial services for the unbanked and underbanked through grant programs, cooperative agreements and other initiatives, Jackson said.

"While prepaid cards are not specified in this section of the Act, the Secretary [of the Treasury] can deem them an appropriate method for helping low and moderate income people," he added.

Therefore, the prepaid industry needs to demonstrate how prepaid card programs can help those without banking relationships function as alternatives to banks in order to take advantage of federal funding, Jackson said.

Additionally, that same section of the Act (Title XII) mandates for the provision of funds for banks to operate small-dollar (under $2,500) loan programs and provide loan-loss reserves on those small-dollar loans, Jackson said. This provision is an opportunity for providers to add a credit functionality to prepaid cards, he noted.

Credit CARD Act

The final rules of The Credit Card Accountability, Responsibility and Disclosure Act of 2009 (the Credit CARD Act) were published in the spring of 2010 and began to take effect in September 2010. Regulation E of the Credit CARD Act places expiration date and fee restrictions on gift cards, as well as mandates fee disclosure requirements.

Jackson said Regulation E "will shake up the industry," but that "smart" program managers can benefit from it in the long run. Phone cards and general purpose reloadable cards not marketed as gift cards are excluded from the regulations, Jackson added. So providers can reengineer card programs to take advantage of the exclusions.

For example, new types of cards can be created, such as budgeting, online shopping and "layaway" cards, that are separate from providers' gift card programs, Jackson said. By changing the marketing, providers could create a "seemingly new business line without a lot of changes to the back office."

Additionally, rather than seeing the more robust disclosure requirements as a burden, they can be viewed as an opportunity to educate consumers on "the diverse uses of prepaid cards," Jackson advised.

CompanyProfile

TriSource Solutions LLC

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ISO/MLS benefits:
- Full suite of merchant processing services
- Core processing charge without ancillary charges to ISOs
- No transaction or monetary minimums as a condition for processing
- Currency conversion offering for cross border sales
- Emphasis on customer support

The close-knit, nimble side of payment processing

ISO and payment processor TriSource Solutions LLC markets itself as the alternative solution to the processing giants: a service provider to small and midsize ISOs that cultivates close relationships with its clients, provides ready assistance wherever it's solicited and offers customizable solutions to a variety of ISOs with differing needs.

TriSource's roots go back to 2003, when a company called CentralBancard was formed in Davenport, Iowa as a nonbank merchant acquirer. That company soon informally split into two divisions: CentralBancard, which marketed to merchant level salespeople (MLSs), and TriSource, which marketed to ISOs, according to Tom Dunn, President of TriSource. The TriSource website indicates the company's net sales volume exceeded $2 billion by the end of 2005.

CentralBancard purchased Nobel Electronic Transfer LLC., located in Rock Island, Ill., in 2007. Nobel had been a registered third-party processor and card network settlement endpoint since 1995.

The forming of TriSource

On the heels of that acquisition, CentralBancard, Nobel Electronic and TriSource merged to form a single entity, which was called TriSource Solutions. Dunn said the etymology of the TriSource name is ambiguous, but the word may refer to these three corporate branches before they merged (although one was already named TriSource); it may also refer to the three-pronged provider of processor, ISO and sales force.

"We've said it means a number of things, but it doesn't mean anything in particular," Dunn said. He added that the company has for years focused on its sweet spot: providing customizable, affordable services to smaller ISOs.

"In the past year, with the economy as soft as it was, we've seen our volume grow at 21 percent," Dunn said. "We haven't been acquiring portfolios or companies; we've been sticking to our knitting as a processor and getting good growth with what we do best, which is being the processor of choice for small to midsize ISOs and for sales agents."

Customized platform

The company has molded itself as "the processor of choice" for smaller ISOs in a number of ways, Dunn said. One is avoiding the cookie-cutter service model that restricts clients to a particular set of services.

TriSource offers everything from individual services to a complete turnkey solution that includes bank sponsorship, authorization, clearing and settlement, risk management, and customer support, along with other optional services like enhanced fraud prevention and multicurrency processing. The company's platform is used by retail, e-commerce and mobile merchants across the nation, Dunn said.

"We're much more consultative and involved than you'd typically find," he noted. "Often you'll hear, 'This is

what we offer; pick what you want,' as opposed to our structure, which is, 'Tell us what you want, and we'll find a way to support your needs.'"

The one processing-based service that TriSource does not offer proprietarily is an authorization platform, but the company has partnerships with Total Systems Services Inc., Chase Paymentech Solutions LLC and Global Payments Inc. through which authorization can be provided along with the full range of back-end merchant services, according to TriSource Managing Partner Henry Harp.

"We're saying to you, Mr. Small, Mr. Midsize ISO, come to us and we're the only person you have to contract with," Harp said. "We'll do your sponsorship, front authorization service, which we outsource, and the clearing and settlement service, which we do ourselves."

No minimums

Another component of the company's merchant services platform – which services retail, e-commerce and mobile merchants across the nation – is that it doesn't impose minimum transaction or monetary volume requirements, making it easier for small and midsize ISOs that don't have vast merchant customer bases to sign up, Harp said. He added that TriSource offers only a base processing fee, and does not blindside its ISOs with a laundry list of auxiliary charges.

"Smaller to midsize ISOs that go to one of the big processors, often they're so small that they won't or can't meet any minimums, while pricing structures require extra charges for getting this or that service," Harp said. "As opposed to, we have a very small schedule of fees and don't nickel-and-dime you to death and don't ask for minimums. You can get the services you need from us whether you want to do this amount of work or that."

Dunn added, "If you were to become a direct customer to one of these large processors, typically they're going to require minimum commitments in transactions or volume, and with term contracts that are going to tie you in. And when you get your bill at the end of the month, it's going to be several pages of ancillary charges in addition to the costs per transaction you would pay for the service you're buying. In our case, it's very straightforward processing … a larger processor might say we can give you transaction processing for x cents a transaction, and we would say, 'We offer processing for x as well, but ours is truly x, whereas theirs is x plus these other 85 ancillary charges.'"

Dunn said the same flexibility that allows smaller ISOs to contract with TriSource without meeting minimum merchant transaction volumes also allows clients to come and go as they please. Contracts with TriSource

are nonbinding, he said.

TriSource's platform also includes risk monitoring (which includes Payment Card Industry Data Security Standard compliance monitoring services, as well as fraud prevention systems) and multicurrency transaction services.

Real-time risk monitoring to prevent chargebacks

Risk monitoring is done in real time, Dunn said, meaning ISOs can filter and flag transactions before they are ever settled into interchange. So ISOs are notified if something is awry before the merchant is paid. Furthermore, ISOs set their own parameters denoting when transactions should be flagged, for example, flagging transactions that exceed a certain dollar range typical to a given merchant.

"There are two sides to that," Dunn said. "We catch [possible fraud] before it gets to interchange, so the cardholder doesn't get billed, and we can also mitigate your risk by not funding something to a merchant that might not be bona fide."

TriSource adopted multicurrency processing in October 2008, when it acquired a majority stake in DCC Merchant Services USA LLC, a merchant services provider that offers currency conver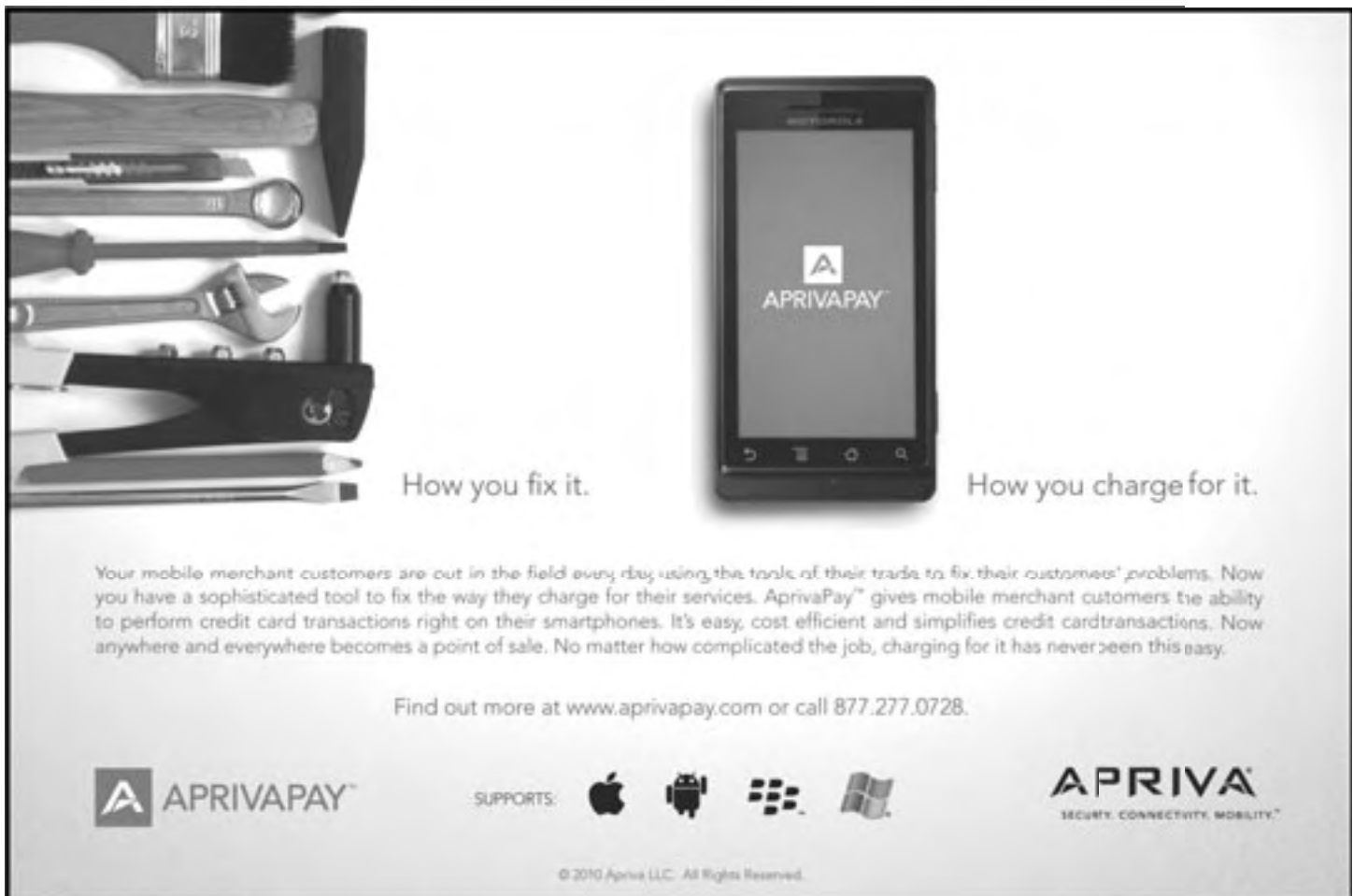sion. The multicurrency offering allows ISOs to offer expanded services to their merchants, and particularly e-commerce merchants looking to facilitate overseas purchases of their goods. It also creates a new revenue stream for the ISOs that offer it through the foreign currency markup that is applied to cross-border transactions, Dunn said.

Close knit and accessible

Dunn said that, at the end of the day, TriSource is distinguished by its close-knit group of service representatives and their relationships with the ISOs that it serves. He said the company's ISO-friendly platform is reflected in the care and attentiveness of its customer service and the absence of bureaucracy separating the company's in-house executive team from the boarded clients who sometimes appeal to them for help.

"It's a much closer-knit processing solution than what you typically get," he said. "ISOs know our people on a first-name basis, and we know the ISOs. People call us directly on the phone. And we work through whatever issues.

"You can't get that on the executive level of major processors. We have the capability and experience comparable to large processors but provide the service orientation of a smaller company. We are more nimble and more capable of providing customized solutions," Dunn added.

FiRST LOOK

Keeping merchants in the know

A major problem facing the payments industry is merchant education. Ask a typical merchant to explain how a payment is electronically processed, or to describe the relationship between a processor and a card issuing bank, and you probably will receive a blank stare in return.

That central dilemna is addressed by Merchant University. Founded by industry expert Theodore Svoronos and fraud and risk mitigation specialist Ian Wynne, Merchant University is a website designed to educate merchants about the various facets of the complex and often confusing payments industry.

The site provides information on everything from how to establish a merchant account to how to fight chargebacks. The category called Merchant Accounts 101 offers guidance on topics from pricing structures to what constitutes a gateway to the various rates and fees merchants are commonly charged.

"One of my favorites: rates and fees," Svoronos said. "It explains every, single, possible fee known to this industry," from the discount rate to hidden or "junk" fees tacked on by unscrupulous agents. Another tab, Best Practices, informs merchants of the basic do's and dont's of card acceptance so merchants can protect themselves from card brand fines or from losing their merchant account status.

Yet another section, Frequently Asked Questions, enables merchants to investigate "everything from what is a legal business name to the information you fill out on the merchant app," Svoronos said. "Who should be the contact person? What is my product service? What's a partnership? What's a sole prop?"

Focus on fundamentals

Wynne said the industry is replete with "high-end" information, but the basics are overlooked. "You've got to start at the bottom and build a foundation of best practices," he said. "And we want to help with that, be that foundation of best practices."

The site took over six months to develop, with the co-founders culling information from numerous sources. Svoronos called the online university "merchant agnostic," meaning a merchant's size or type doesn't matter. "It

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can be a tiny $1,000-a-month merchant; it can be a $50 million-a-month merchant – and everywhere in between," he said. "There's a resource in there for everyone." Wynne believes that, while merchants of all sizes reflect a fundamental lack of understanding of the payments industry, the online university may be particularly useful for newer, inexperienced merchants who are especially uninformed.

"They really are vulnerable to processors and associations that are willing to take advantage of them in any number of ways," he said. "And that just creates a pretty terrible experience for the merchant." "If you are a MO/TO merchant and they try to put you on a three-tier pricing program, tell them no," Svoronos added. "If someone tells you they don't know how to fight chargebacks, get on the darn site and learn how to fight chargebacks."

Education the sole purpose

In addition, the site can be a resource for ISOs and merchant level salespeople (MLSs). "It's really focused on the merchant," Svoronos said. "But it also can be a great source of information for ISOs or MLSs if they have questions. … Hopefully they're going to know this information. But if it needs to be used as a reference source by anybody, we want to make that available to them."

Svoronos noted that other sites have sprung up that are marketed as resources for merchants, but Merchant University is different because it isn't a vehicle for selling something else. "This industry needs this very, very badly," he said.

"So we don't board merchant accounts. We don't care where the merchant goes, as long as they understand the industry: what they're getting themselves into, what pricing structure that they should be under, rules and regs, how to fight chargebacks – everything the industry needs to tell them so that they can succeed."

AmEx, the DOJ settlement holdout

Visa Inc. and MasterCard Worldwide reached a settlement with the U.S. Department of Justice (DOJ) and seven states to resolve antitrust allegations involving the companies' U.S. card acceptance rules. The settlement will enable merchants to post the costs of different payment types and to incent various types of payment with discounts or rebates.

Joining the DOJ in the action filed in the U.S. District Court for the Eastern District of New York were the states of Connecticut, Iowa, Maryland, Michigan, Missouri, Ohio and Texas. Meanwhile, American Express Co., the third defendant in the action, is vowing to fight the civil complaint in court.

The settlement culminates a two-year investigation by the DOJ, which alleged that card brand rules put undue restrictions on merchants by forbidding them from promoting less expensive payment options and stifling price competition. Swipe fees cost U.S. merchants about $35 billion a year, according to the DOJ's website.

Under the terms of the settlement, merchants will be able to offer discounts or rebates to customers for using one brand of card over another (Visa versus MasterCard, for example) and for using a particular kind of card (debit versus credit, nonreward versus reward card, etc.). Merchants will also be allowed to post their pricings for customers to see, and to promote these different payment types.

"The card associations, as we know, have been loathe to allow any type of discount or differentiation between cards," said Los Angeles-based payment attorney Theodore F. Monroe.

"They want parity. For instance, on the Internet you can't present Visa first, then MasterCard, or present Visa as larger than MasterCard, or say you're giving a discount on Visa but not MasterCard. You can't say, 'I'm offering a discount on these types of cards, but not these ones.' That's gone now, and that's a historical change."

Complications in store

Yet the refusal of AmEx to take part in the settlement may complicate matters. For the time being, merchants who accept Visa and MasterCard but, not AmEx, can implement the new settlement rules right away, but merchants who take AmEx along with the other brands cannot.

AmEx cards tend to carry the highest swipe fees among the major brands – fees that AmEx said fund an extensive rewards program aimed at its relatively affluent client base.

Given its higher interchange costs, AmEx would probably suffer the most under rules that let merchants steer customers toward one payment type or another, observers have noted.

In a statement, AmEx said that rather than promote competition, the DOJ's new rules would suppress it further by giving an extra leg up to the two dominant card brands. Industry observers have noted that overhauling the card brands' interchange rules could dampen the market for rewards cards across the board.

"This is a really bad situation for AmEx because it offers its card members all these perks that are very expensive to implement, and the other card associations don't offer them," Monroe said.

Nevertheless, Monroe doubts whether the new acceptance rules will have great impact on the industry. He said many merchants will determine that it's too awkward and time-consuming to steer customers toward one payment form or another and that the practice will mostly be taken up by businesses selling big-ticket items.

"If you're going to take the time to offer the discount and go search for the discount, it's not worth it if the transac-

tion's only 10 bucks – or really even if it's 100 bucks," he said. "But if it's for $1,000, or a $2,000 plane ride to Fiji or something, then it's probably worth it."

Payments kingdom under siege

But Linda Mahy, Chief Executive Officer of payments consultancy Connective IQ Inc., said the settlement could prove to be a bad omen for a payment system that is increasingly under fire from federal regulators.

She feels the card brands "have spent way too much time and money" on coming to an agreement in the DOJ's lawsuit. "They've got to move on and counter this by improving their products and services," she said. "That means getting out there with mobile and getting into the [business-to-business] market.

They've been real laggards in B2B. With mobile applications and closed-loop systems out there, they could easily be disintermediated."

Mahy added that the antitrust settlement could "fuel the Durbin Amendment" because both promote an expansion of choices for merchants at the POS (the Durbin Amendment requires that merchants be able to connect to multiple back-end systems for debit payment routing).

But she added that such an array of payment choices will be a burden on merchants who have trouble comprehending the system as it is.

"I don't think we can allow this kind of confusion, either to the consumers or the merchants," she said. "The ISOs have an opportunity here to help educate the merchants, especially the mom-and-pops. This is a great argument for knowledge-based ISOs."

PCI SSC's latest: P2PE guidelines

T he PCI Security Standards Council released a paper containing guidelines for payment professionals considering the implementation of a point-to-point encryption (P2PE) apparatus to protect cardholder data.

The paper discusses the use of P2PE solutions, including some of the technologies and methods involved in its implementation, the ways P2PE may reduce the scope of PCI compliance, the PCI standards that bear on P2PE solutions, and the path to certification.

According to the PCI SSC website, "Currently no global standardization of point-to-point encryption technology or validation of its implementation exists in the industry.

However, by providing this new guidance on P2PE, the

council has taken the first step by definitively stating that P2PE may simplify PCI DSS [Payment Card Industry Data Security Standard] compliance by reducing the scope of the cardholder data environment."

The PCI SSC indicated the paper, titled *Initial Roadmap: Point-to-Point Encryption Technology and PCI DSS Compliance*, will be one in a series of documents that "cover the use of encryption as it relates to the PCI [DSS] and scope reduction."

The paper was posted on the PCI SSC's website on Oct. 5, 2010, in conjunction with a separate document of guidelines for Europay, MasterCard and Visa (EMV) systems.

The council stated that the paper is a roadmap written with the "merchant perspective" in mind but is also aimed at payment processors, acquirers, assessors, vendors and other payment solution providers.

Point-to-point versus end-to-end

The phrase "point-to-point encryption" is often used interchangeably with "end-to-end encryption," but the PCI SSC eschews "end-to-end" because it can be misleading, according to Mark Bower, Vice President of Product Management for data security firm Voltage Security Inc.

Bower said P2PE entails the encryption of data from the point of capture at the card swipe device or other data entry point to its arrival at a payment processor – including its journey through a POS system, the merchant's information technology infrastructure and a gateway – where decryption is usually necessary before the data is distributed to different card issuers or other end points.

Because the data is almost always decrypted before reaching its final destination, Bower said the council has determined "point-to-point encryption" is a more accurate description than "end-to-end encryption."

Bower said there are no security silver bullets, but the proper use of P2PE is "as close as you're going to get" with the security solutions currently on the market.

He said P2PE would make life easier for merchants by reducing the scope of PCI compliance (because new encryption methods reduce the need for other security measures), lowering fraud prevention costs and reducing data theft. "For the first time, the PCI council is essentially acknowledging that encryption technologies, when applied correctly and against the forthcoming validation guidelines, can actually be used to simplify and reduce the scope of PCI standards for merchants," he said.

"If you can take a lot of these systems out of that assessment – for instance, remove the point of sale, remove the store controllers and the merchant's IT – that's reducing the costs of security right there and also getting a risk reduction benefit at the same time."

P2PE already in gear

Bower added that many merchants are already using P2PE solutions, and that the PCI SSC's guidelines would help propel it into the mainstream. "The train has left the station in terms of point-to-point encryption," he said. "Our customers are already implementing this. Really, the PCI council agreed that there are probably three technologies that are most important in helping organizations mitigate threats: EMV, point-to-point encryption and – what's next? – what's coming down the pike is guidance of tokenization."

(Tokenization protects cardholder data by replacing the 16-digit card number with an alpha-numeric substitute ("token") for storage in a POS system. The token can be used to identify the purchaser for chargebacks or other post-transaction issues but is useless if stolen.) 🖼

ALDI breach may highlight fraudster M.O.

ALDI Inc., which operates 1,100 U.S. grocery stores across the Midwest and East Coast, affirmed on Oct. 1, 2010, that tampered POS terminals had been placed in ALDI stores in 11 states, leading to the unauthorized capture of payment card information of ALDI customers. In a statement ALDI said a "limited number of stores" had tampered terminals and a "limited number of our customers" had been affected.

The grocery store chain stated that the tampered POS devices were placed in ALDI stores between June and August 2010. The compromised terminals were found in Hartford, Conn.; Atlanta; Chicago; Indianapolis;

News

Rochester, N.Y.; Charlotte and Raleigh, N.C.; Pittsburgh; Philadelphia; and Washington; among other store locations.

ALDI indicated it reported the crime to federal law enforcement, conducted an investigation into the security breach, reviewed its stores nationwide and removed the tampered terminals. Furthermore, the grocer said it notified the "relevant" card brands of the breach and implemented additional security measures in its stores.

ALDI spokeswoman Michele Williams told *The Green Shee*t that no ALDI employees are under suspicion as perpetrators of the breach. Williams declined to provide details on the crime or on the ongoing investigation.

The *Chicago Tribune* reporting that over 200 debit cardholders who shopped at an ALDI store in Wheeling, a suburb of Chicago, said they experienced unauthorized withdrawals of between $100 and $900 from their accounts. Furthermore, Pittsburgh news station WPXI reported that a local ALDI shopper said $600 was removed from her account via two unauthorized ATM withdrawals.

The *Daily Herald*, a suburban Chicago newspaper, reported that St. Charles, Ill., police said thieves used stolen debit card account numbers of ALDI shoppers to

withdraw money at ATMs in California. Both the U.S. Secret Service and the FBI are reportedly investigating the breach, but no arrests have been made.

Debit only

The breach only affected PIN debit cardholders; ALDI stores do not accept credit cards or checks.

The grocer said debit purchases make checkout lines move faster because, unlike credit, debit transactions do not require extra time for customers to sign receipts. Additionally, ALDI claims it passes on savings to customers because it pays lower interchange rates on debit than it would on credit.

Gary Palgon, Vice President of Product Management at data security solution vendor nuBridges Inc., noted that credit cards are seen as a bigger security risk than debit. But the trouble with debit is that when fraudsters get card numbers and corresponding PINs, they achieve access to cardholders' bank accounts, he said.

Given the lack of available details, Palgon could not speculate on how the ALDI breach was perpetrated. But because it appears it was not committed by ALDI employees, one scenario Palgon offered is that of a skimming scam involving fraudsters entering store locations and posing as POS service providers.

The would-be vendors tell store associates they are there to upgrade the terminals, Palgon said. Not knowing any better, the employees allow the fraudsters to swap the POS devices with the same POS models but embedded with chips, he said.

When transactions are conducted at the POS, the data is processed in the normal fashion, but the embedded chips secretly reroute the captured card information to fraudsters' remote computers before it is encrypted, he said.

Flaws in the armor

The above scenario points to two main security flaws, according to Palgon. The first is a POS device issue because card data is not encrypted at the point of swipe. The other problem is one of training and education.

"It's not only a technology problem," he said. "It's a people problem, an education problem. Because people in the stores that work there need to question, what are your credentials to swap out my swipe, my payment terminal?"

Palgon noted that employee training is required by the Payment Card Industry Data Security Standard, but it's a "very small part." Further, he questioned the wisdom of training that entails merely checking a series of boxes.

He believes merchants can't afford to cut corners in this manner because one lapse in security can result in "a lot of consequences for the brand."

Trade**Association**News

An ETA teach-in at Capitol Hill

What is interchange? How can I differentiate between a signature debit card and a credit card? What's the difference between a card issuer and an acquirer? These are just a few of the questions the Electronic Transactions Association set out to answer for federal and congressional staffers at an Oct. 1, 2010, educational briefing on Capitol Hill.

Personnel from agencies as diverse as the National Park Service and the Internal Revenue Service, along with congressional staffers, attended what the ETA billed as Electronic Payments Education Day.

"ETA takes self-regulation seriously," Carla Balakgie, the ETA's Chief Executive Officer, said in kicking off the event. It is the third such event presented by the association in recent years. And education is a critical component of regulation, she offered.

Presenting to the group, in addition to Balakgie, were Diana Mehochko, President of the acquirer First National Merchant Solutions LLC; Rick Plyant, Chairman of ISO CoCard Marketing Group LLC; and Robert McCullen, Chairman, CEO and President of Trustwave, which specializes in data security and PCI compliance.

These experts discussed the roles and responsibilities of the various players in card payments and then walked the group through the life of a card payment.

McCullen wrapped things up with a concise explanation of how cardholder information gets compromised and what PCI and encryption do to address the specter of data breaches.

SCA big on contactless and mobile

At its Transportation Council meeting in New York City on Sept. 22 and 23, 2010, the Smart Card Alliance hosted executives from transit operators, card issuers, payment brands and technology providers to share visions on open payment for transit.

Open payment involves "accepting contactless credit, debit and prepaid payment cards and devices for fare payment at the turnstiles and fare boxes of the nation's subways, regional railroads and buses," the SCA reported.

Leading card issuers voiced their commitment to open payment initiatives; transit agencies examined the potential of open payment and discussed several proposed projects designed to implement the technology.

On Oct. 6, the SCA shifted gears and released a white paper, *Chip-Enabled Mobile Marketing*, focused on mobile marketing applications that take advantage of mobile phones that are equipped with radio frequency chips for initiating payments. The chips are either built into mobile phones or added to them.

"It is no surprise that mobile marketing and advertising are expected to nearly triple over the next three years," said Randy Vanderhoof, Executive Director of the SCA.

"Consumers like using their mobile phones to redeem coupons and take part in marketing campaigns – it is so much more convenient and even fun compared to traditional paper coupons and card-based loyalty programs. "The paper is available for free download at *www.smartcardalliance.org.*

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The report states that technology initiatives topped the capital expenditure priority list for U.S. retailers in three of the top four categories. Among them, expanding Internet channels ranked highest at 47 percent, while 30 percent said funding POS initiatives was most important, and 27 percent indicated developing mobile initiatives as a top priority. So what can ISOs do to help retailers embrace technology in an increasingly competitive environment?

"There is some really low-hanging fruit when it comes to mobile that I'm surprised more retailers haven't taken advantage of," said Jim Crawford, Executive Director of the Global Retail Executive Council. "It's not horrendously complicated to make your website's product information mobile accessible. Any retailer that hasn't done that is really behind the curve at this point."

According to a recent survey conducted by *Internet Retailer*, early adoption of mobile commerce websites among 149 retailers surveyed was at 8.8 percent; however, 75.9 percent of respondents plan to launch such sites, of which 52.6 percent intend to sell through mobile phones within 12 months.

Crawford suggested stores add new technology, like QR codes, which are two dimensional matrix codes similar to bar codes, or Microsoft Corp's mobile bar code technology, Microsoft Tags, to allow shoppers to connect directly with merchants' e-commerce sites from the products they're viewing in the store.

If a merchant is out of stock, the shopper isn't left with an empty shelf and no alternatives. Deploying such technology so shoppers can visit a designated web page while in the store is something he believes retailers should focus on, even for the 2010 holiday season.

With most retailers focused on mobile marketing, mobile commerce has progressed more slowly than anticipated, Crawford reported. "There hasn't been as much movement toward the actual commerce side of it," he said.

"I think that's something that's going to bite a lot of retailers this holiday season, because shoppers are going into their stores expecting to be able to use their phones as part of the shopping experience." He believes that if shoppers cannot do so, they will shift to more aggressive competitors.

"The fact is that a lot of the e-commerce players, and Amazon is first and foremost, are actually making it easier for the shopper to go online right from their phone," Crawford stated. "So what's happening is really, for the first time, we're starting to see where brick-and-mortar retailers are having cannibalization directly out of their stores by competitors' e-commerce channels, whereas in the past that would have been limited."

Crawford said one area gaining momentum is adapting consumer mobile devices to serve as payment terminals. "If you look at what Apple has done, if you look at what FourSquare has done for the iPod and the Android, you have the ability now to take a mag stripe payment over really any set, any smart phone, and process it securely. It's a good alternative to hardwire installations for smaller merchants and for those operating temporary pop-up stores."

Overcoming barriers to mobile

Crawford believes focusing on mobile payments at the exclusion of other channels, such as developing a merchant's Internet presence, is shortsighted. "The challenge with payments, basically with all the automation here, is that retailers are looking at it too much in isolation," he said. "Mobile payments have not caught on in the U.S.

"A barrier to that is that the retailer is suddenly expecting the shopper to change their behavior without making a tie-in with what they're doing."

Greg Hammermaster, President of Sage Payment Solutions, agrees. "What we want to do is to look at it holistically and look at it from a loyalty perspective, from a payment perspective, from an information delivery perspective, and then put that together into a mobile

strategy," he said, adding that it's more than "just simply sticking a little envelope onto the audio jack of an iPhone, swiping the card and saying we solved it."

In tandem with increased use of mobile payments, other payment methods will persist, according to Hammermaster. "I think now is the time also for merchants to embrace credit cards, because a lot of American consumers are loyal to their credit cards," he said. "Whether it's loyalty points or the convenience factor, there is a loyalty factor there.

"Customers buy from stores and vendors that they feel comfortable with. If the tendency is to persuade the customer not to pull out the credit card, but to use some other form of payment, they may not come back."

Integrating payment functions

During tough economic times, payment automation performs well as a merchant solution, Hammermaster noted. "We saw an uptick in the payments side of what we do," he said. "We grew rather significantly our customers that selected the payment to be integrated into their accounting or ERP [Enterprise Resource Planning] solution to eliminate the manual data entry that you have to do when you acquire payments," he said.

Automation "has become important for several reasons," he added. First, automation reduces the time it takes to get paid, which increases cash liquidity, he said. It also reduces processing costs, because automating transactions eliminates the need for manual key entry or management time to correct entries.

Sage offers a software-as-a-service (SaaS) solution that, according to Hammermaster, merchants are now more willing to adopt because SaaS-type services offer affordable integrated solutions.

"The backbone is really the payment data flow from the point of sale into the accounting system," Hammermaster said. "Retailers want to be able to accept payments through a POS device, through a software system, through the Web, etc. Essentially, they want to take all forms and methods of payment and have it flow into the accounting system just one way."

For this holiday season, Hammermaster advises merchants to reevaluate the fundamentals of their retail payment environment and consider consolidating payment vendors.

For example, if a merchant has a credit card vendor, a check vendor and an online gateway vendor, there could be three vendor contracts and multiple Payment Card Industry Data Security Standard hoops to go through, whereas with a full-service vendor all payment solutions are managed under a single platform, he noted.

"When you move into integrated payments, you are really changing the game," he said. "You are upping the level of commitment and reliance that your customer has on you. It's no longer just, the POS device doesn't work. It's now, does my data integrate into my accounting system and when I go through my audit, how does this thing work?"

Treating loyalty like royalty

Another way savvy retailers can capture more holiday spend this year is to utilize the latest offerings in gift cards, loyalty programs and coupon rewards. Mobile devices coupled with online services offer new ways to market directly to customers by extending the merchant-customer relationship over time.

Such is the domain of Orange, Calif.-based Street Savings. "The holidays are all about traffic, and we offer a way to capitalize on that traffic to build sales volume throughout the year," said Pal Flagg, Chief Operating Officer at Street Savings. "The problem with most loyalty programs is that it's one more card to carry. Consumers want progress without a card. They want to be able to provide a phone number to track points."

Street Savings offers mobile marketing solutions that can be integrated with existing gift and loyalty programs,

both those that use cards and those that do not. Merchants pay a monthly usage fee to send automatic, preprogrammed messages based on preset criteria to the mobile devices of customers who opt-in at participating merchants.

Flagg reported that market penetration of loyalty programs in the United States is below 5 percent, but he expects mobile rewards programs to increase the level of participation among U.S. consumers.

According to Doug Hardman, Chief Executive Officer at SparkBase, a private-label, stored-value network, loyalty is "where the largest growth segment for stored value is. Gift cards – we know that we need them and people will get them. But if you really want to make your business grow and you really want to help the small retailer, you get them involved in a loyalty or rewards program."

SparkBase has about 14 million registered cardholders on its unbranded website, *https://getyourbalance.com*, where users can register multiple cards and track their rewards balances.

In February 2010, the company launched an unlimited transactions program, eliminating the per-transaction fee; now ISOs can negotiate a flat monthly fee for unlimited transactions, making the loyalty program more accessible to smaller merchants, like the neighborhood coffee shop, Hardman reported.

SparkBase is working to build social networking and text messaging participation that will enable smaller merchants to interact with their customers. "So, if they're big on FourSquare or Twitter, they can go into a store, swipe their card after they earn points, and not only will it check the customer in automatically on FourSquare, but it might tweet them that they've earned a reward," Hardman said.

Another company set to make further inroads into prepaid gift cards this holiday season is prepaid industry leader Blackhawk Network.

Its gift card malls are positioned in

groceries, convenience stores, drugstores and mass retailers throughout the United States, as well as online via GiftCardMall.com, Amazon.com, Meijer.com, Buy.com and drugstore.com. "I do see Blackhawk looking at prepaid as a real driver for a lot of different categories," said Teri Llach, Chief Marketing Officer at Blackhawk. "We see consumers choosing prepaid over credit or even debit these days because of the budgeting angle."

So, as consumers remain cautiously optimistic, now is the time for ISOs and merchant level salespeople to help merchants integrate technology strategies that will drive traffic into their stores this holiday season and beyond.

Education

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Making VAR relationships work for you

By Ken Musante
Eureka Payments LLC

The Holy Grail of merchant services is a niche where no one else can play – be it because of pricing, strategy, solution, knowledge or customer access – the niche where only you can provide services at a competitive rate.

We can all think of companies that rule a niche. Merchant Warehouse's BIN routing product, Planet Payment or Payvision's multicurrency offering are just a few product niches that have insulated these processors from competition.

How about Elavon's integration work with third-party value-added resellers (VARs)? Ever try to move a merchant that was integrated with Intuit Inc.'s QuickBooks? Many VARs provide that same differentiation, such as Micros, which charges a premium for its product, while others, like USA ePay and eProcessing Network differentiate by being the low price leaders.

Differentiating through VARs, however, raises one big issue: Success criteria for VARs are different from yours. By their nature, VARs want to partner with as many providers as possible, thereby increasing the competition in your niche. Your goal is to bring on merchants profitably and directly.

VAR-sighted

But what if you could develop an exclusive relationship with a VAR? Would the VAR then become an extension of your company? How could you do so in a manner that properly compensates the VAR while maintaining your niche?

To determine this, I posted the following on GS Online's MLS Forum:

"We need VARs. We need them to certify to our processor, comply with network changes and mandates and cater to merchant requests. Many of us compensate VARs for referrals as well.

Some VARs see such compensation as a conflict and refuse it, while others will only steer business if they receive such compensation. How do you see VARs? Are they competitors or our allies? Is there a wholesale difference between VARs serving retail merchants versus VARs serving card-not-present merchants?"

WWW.PAYMENTLOGISTICS.COM further framed the discussion, stating, "For the purposes of my post, I'll assume a VAR is not a traditional MLS or ISO, but rather is any entity that adds a piece of technology to the sale, which the merchant purchases and then uses in conjunction with electronic payment processing services.

That makes a VAR a competitor to all service providers who they are not compatible with, or do not endorse, and an ally to all service providers who they are compatible with and they do endorse."

WWW.PAYMENTLOGISTICS.COM related talk in the industry several years ago about margin compression and how it is the reality for most maturing industries. However, a handful of payment companies realized margin compression could be reversed by creating a "technology barrier" that eliminated or greatly reduced competition for their merchants, while adding value at the same time.

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▶ *"Our industry has a habit of hijacking acronyms. VAR, in its true definition, was an asset to the ISO and ISA. It was an added tool to the toolbox."*

Forum Member **CLEARENT**

"In my opinion, Mercury Payment Systems and a few others have been very successful with this model," he wrote. "For everyone not doing this, not only do they have to continue to worry about margin compression, but now they have an ever-shrinking pool of merchants they can market their services to."

WWW.PAYMENTLOGISTICS.COM likened margin compression to standing on a stack of gold coins arranged in columns. Every month the top layer of coins, as well as the outermost columns, are removed.

Assuming each column of coins represents a merchant, and the height of the stack represents the ISO's margin on that merchant, losing the top layer illustrates margin compression, and losing the outermost columns represents a shrinking pool of merchants you can market to due to technology barriers.

"That's the reality for many service providers in this

industry, and it's getting harder for them to replace the coins they are losing," he wrote. "But today the industry has and continues to react to those technology barriers by competing in the technology barrier-building process."

WWW.PAYMENTLOGISTICS.COM went on to say that more companies have in-house payment gateways and in-house technology offerings which add value for VARs and, ultimately, their merchants. "When you are successful in turning a VAR into an ally, you often have been successful in turning that VAR into a competitor for someone else," he said.

Assets and liabilities

I love the gold coin analogy. It illustrates how VARs can insulate or isolate themselves from our competition. **CLEARENT** expanded on the above comments, "I agree," he wrote. "Our industry has a habit of hijacking acronyms. VAR, in its true definition, was an asset to the ISO and ISA. It was an added tool to the toolbox.

"Today, it means multiple things, and without speaking about specific VARs, it isn't possible to generalize."

CLEARENT offered an example of how some VARs recognized an opportunity in partnering with processors and reselling processing, thereby becoming direct competitors to ISOs and competing on price.

"Sometimes we will have been selling VARs and find out that they had entered a partnership after we have sold them to a merchant of ours," **CLEARENT** said. "This results in a fear of selling any VARs, or setting some boundaries on selling them."

However, the concern over data security and Payment Card Industry (PCI) Data Security Standard (DSS) mandates have caused many VARs to outsource processing to PCI DSS compliant vendors, **CLEARENT** added, which "tends to take the 'process with us' pressure down a little."

The moral of **CLEARENT**'s post is clear. "Investigate the VAR you choose as a partner, ask their intent regarding partnerships, and decide on whether they become a tool or not," he wrote.

Take it or leave it

While **CLEARENT** makes valid points, I want to further explore his summary. He proposes a simple solution. However, the playing field is dynamic, and while your partner VAR and your own priorities may currently be

▶ *"From my personal opinion, in the next seven to 10 years,
VARs will be the front-runner, not the IC/ISO, or even a bank,
in acquiring a merchant account."*

Forum Member **JGARZA**

aligned, that could change. The ownership structure of the VAR could change or the competitive playing field could change or your own capabilities could change.

The result is that the VAR (or you) could choose a path that no longer allows for the tight relationship that you currently enjoy. From my perspective, that is not a problem or even a reason to get angry with a partner VAR. It's simply a business evolution.

Recognize this when structuring your relationship with your VAR, and establish parameters that allow payouts to continue after the expiration of the agreement, and require merchants to be maintained on their existing platforms in perpetuity.

This will ensure the work you have done continues to pay dividends to both parties. And while you can remain on friendly terms with the VAR, you may not always have as tight of a relationship as you once did – and that is OK.

Friend or foe

JGARZA provided insight and a prediction for the future. "[T]he VAR market and increased need for technology has created an interesting dilemma," he wrote. "From my personal opinion, in the next seven to 10 years, VARs will be the front-runner, not the IC/ISO, or even a bank, in acquiring a merchant account.

"With the ever-growing mobile space, cloud computing and business management systems, going to the bank and opening an account is going to be second on the list.

When an IC/ISO approaches a prospective merchant, it's highly probable that the merchant will already have their system or solution up and running and the IC/ISO will have minimal chances on new accounts."

JGARZA mentioned the emergence of Intuit QuickBooks, Blackbaud, PayPal, with services not dreamed of 10 years ago. He said, "Things are going to get interesting, and if I had to answer if a VAR is an ally or competitor, if you leverage a solution or expertise the VAR can't support, you become an immediate ally.

If your business model is one of high-priced terminal sales, free terminals, leases and no value, buckle up because more competitors are coming!"

BANKCARDREP1 is no fan of partnering with VARs. His blunt analysis is that VARs are competitors. "Every

relationship I ever had with a VAR ended with them eating my lunch," he wrote. "Become one, or compete with one."

RBELCHER is in complete agreement when he said, "Competitor, they always pretend to have your best interest at heart, but never ever trust the VAR. There is one way to tell if they are lying: look to see if their mouth is moving."

AGENT provided new meanings for VAR: "Very Aggressive Reseller …Very Apathetic Reseller … VAR = Competitor."

Value-adding the VAR

WWW.PAYMENTLOGISTICS.COM believes to maintain a relationship with a VAR, you must provide them something unique: "It's all about adding value for the VAR, whether through technology, creativity, support or a combination thereof.

A relationship based solely on commissions is ripe for competitors or for the VAR to cut out the middleman and become a direct competitor.

"Just like any other business, VARs have problems and issues they struggle with, too. Show them how working with you resolves their problems and addresses their issues, and you've gained what will hopefully be a lifetime ally."

According to **WWW.PAYMENTLOGISTICS.COM**, the trick is to differentiate yourself from the competition when in pursuit of VARs. "Our company has been able to do this with technology and creativity," he said. "Not every solution has to be high-tech either. Thinking outside of the box is a great way to address a VAR's needs in a sustainable and manageable fashion.

"Sharing in the upside is the easy part. Adding value to the VAR's business in ways others can't is the hard part, and if you're an MLS in today's evolving industry, it takes a partner who has the in-house resources, innovation and desire to help you deliver.

And for those MLSs that want to work on these types of relationships, it only takes one good one to change your life." This is a great point and encourages us to treat VARs like we would our merchant customers.

CARDPLAYER's comments affirm it is OK to have a non-monogamous relationship with a VAR; it's called "coopetition." "Sometimes you cooperate and benefit from mutual referrals; sometimes you compete for the business with your referral partner," he said. "VARs are in the same pickle. It's all in how you play the game."

I agree. We should not put all our eggs in a VAR's basket. We should strategically work with VARs and understand that we are separate companies.

At some point, either we or the VAR may go a different direction, and we should be able to remain on friendly terms and appreciate the history we created.

To VAR or not to VAR

I'll give the last word to **STEVE NORELL** and **NWBC**. **STEVE NORELL** said, "Whether or not you want to admit it, more and more VARs each day are getting into competing with the MLS business.

They are almost required to do so because they are all looking for a place to increase monthly revenue, and that place is residual income.

"Whether they get it from the merchant directly or from the ISO/MLS is irrelevant; they need it and they are going after it. Today's market condition is making it necessary for all types of businesses in our industry to look for income anywhere they can get it, even if it goes against their original model."

NWBC said, "[A]s several of us on this forum can tell you because we are both the VAR and the processor; the tide is turning to the VAR. I've said for a couple of years now that, if you didn't have a relationship within x years (currently $x = 3$), then you would be relegating yourself to the fringes of the processing world."

NWBC sees VARs pushing hybrid POS systems in the future. "The VARs love the idea of hybrids as that will be more difficult for the ISO community to counter," NWBC said.

"It won't be all that long from now that if you can't offer the VAR something of real value, they won't need you at all. You'll be a dinosaur, and we all remember what happened to them, don't we?"

I want to give a shout out to Joe Garza of Moneris Solutions for the topic suggestion. Thank you, send more.

And when in doubt, sell something. 🖼

Ken Musante is President of Eureka Payments LLC. Contact him by phone at 707-476-0573 or by email at kenm@eurekapayments.com. For more information, visit www.eurekapayments.com.

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- An outside law firm, The Lustigman Firm, has been enlisted to help ensure that the promotion has been structured in a legally compliant manner.

- The contest drawing will be observed by Weiser LLP, an independent accounting firm.

No Purchase Necessary. UBC Million Dollar Giveaway starts on September 1, 2009 and ends on the date in which there are 27,000 entries or August 31, 2010 at 11:59PM ET, whichever is sooner. Promotion is open only to Sales Associates (as defined in the Official Rules) of United Bank Card, Inc. that are located in the fifty (50) U.S. states (and D.C.) 18 years of age or older. For official rules write to United Bank Card, Inc., PO Box 4006, Clinton, NJ 08809. Void where prohibited. Sponsor: United Bank Card, Inc., PO Box 4006, Clinton, NJ 08809.

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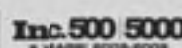
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Think before you send

By Dale S. Laszig

Castles Technology Co. Ltd.

In the brave new world of high-speed communication, email is the new letter, and texting is the new email. It's part of our changing views on formal and informal correspondence.

Generally speaking, the paper note is going the way of cursive script: an archaic form that's no longer being taught in school. However, email etiquette is part of most business school curricula and of increasing concern to the global business community.

The right mindset

Rules of engagement for sending and receiving email are easy to follow, so why are they overlooked? In most cases it's because we simply react without taking time to plan and think.

In the absence of body language and tone of voice, the email environment can become a breeding ground for misunderstanding. Before you press "Send," consider putting your email through a stress test by reading it as if you were the recipient. How would you feel if you received this message? Is it easy to understand? Are you motivated to respond?

Effective email communication requires the right type of mindset. It's not unlike a crossword puzzle: you have to find the right words to fit inside the squares. How many times have you witnessed a runaway email trail?

As in any crossword, a single misplaced word can affect all the neighboring squares, throwing you out of kilter and leading you astray from the answers you seek.

Master the elements

Professional email has a clear unambiguous message, a layout that's easy on the eyes and a courteous, compassionate tone. Following are guidelines to optimize each of these elements, improve the quality of your email and move your business forward.

- **Message and intention:** Overflowing inboxes and smart phones that ping as well as ring serve to remind us that quality, not quantity, is what counts in high-speed communication. A clear message has a compelling subject line, well-blocked body copy and a call to action in the closing statement.

  According to David Shipley and Will Schwalbe, authors of *SEND: The Essential Guide to Email for*

Office and Home, it's better not to send any message than to send one that's sloppily written or vague. Their book lists the "8 Deadly Sins of Email":

1. The email that's unbelievably vague. ("Remember to do that thing.")
2. The email that insults you so badly, you have to get up from your desk. ("HOW CAN YOU NOT HAVE DONE THAT THING?")
3. The email that puts you in jail. ("Please tell them that I asked you to sell that thing when it hit $70.")
4. The email that's cowardly. ("Here's the thing: You're being let go.")
5. The email that won't go away. ("Re: Re: Re: Re: Re: Re: Re: that thing.")
6. The email that's so sarcastic you have to get up from your desk. ("Smooth move on that thing. Really smooth.")
7. The email that's too casual. ("Hiya! Any word on that admissions thing?")
8. The email that's inappropriate. ("Want to come to my hotel room to discuss that thing?")

- **Layout and design:** Good design makes the best of email anatomy, beginning with the address line. When it comes to addressing and sending emails, less is more. Shipley and Schwalbe claim that "an individual is much more likely to do as instructed in an email if he or she is the only person in the 'To' line."

  Immediately below the address line is the "cc:" line, a nod to the old paper days when carbon copies of an original were distributed to stakeholders. In our zeal to keep people posted, we can go a bit overboard with copying to others.

  Those who receive hundreds of emails a day would be delighted to be kept on a need-to-know basis by colleagues.

  The subject line functions just like an attention-grabbing headline that announces the message and pulls the reader in. Body copy that's blocked into sections with headings and bullet points has a high readability factor. Dense paragraphs and run-on sentences discourage readers who want to scan your message and absorb the main facts.

- **Etiquette and tone:** How many times a day do you read or write, "looking forward," "business opportunity" and "best regards"? These and other pedestrian phrases have wormed their way into our daily correspondence. Emails that offer a fresh

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approach to familiar topics rise above the sea of competing and similar voices.

Shipley and Schwalbe recommend being "vivid and specific" and even perhaps revealing, without forgetting your relationship with the person to whom you're writing.

On the most elemental level, according to the authors, you should – before setting finger to the keyboard – ask yourself one question (and don't write until you get the answer): "What is my relationship to the person I'm writing?" Then make sure you choose appropriate language.

We've all been taught to say "please" and "thank you," but we should use these words sparingly in email. Shipley and Schwalbe suggest replacing the word "please" with simple phrases like "Remember to include me."

Their rule for "thank you" is to use it to express appreciation after, but not before a favor, since thanking anyone in advance may seem insincere. Is that person supposed to say "you're welcome" in advance?

Beware the abbreviations and casual grammar that have become the hallmark of text messaging. The new chat-speak looks out of place in an email and should never be used in a business email, even in an exchange between peers. Remember, everything you write in an email becomes a permanent public record.

Saving trees, saving money

It's interesting how much emails have in common with clicks. Both have evolved from paper to electronic formats and even appear to be merging as many high-end retailers email credit card receipts to customers who opt out of receiving paper copies.

Signature lines at the bottom of emails exhort us to "go green" by not printing a paper copy of the email. Green is also the color of money, so let's go even greener by improving the quality and decreasing the quantity of our email correspondence – and thinking before we send.

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.

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HIPAA and PCI: How do they compare?

By Nicholas Cucci

Network Merchants Inc.

Data privacy and security have received significant press coverage in recent years – and for good reason. It's crucial to continually promote Payment Card Industry (PCI) Data Security Standard (DSS) compliance, as well as Health Insurance Portability and Accountability Act (HIPAA) compliance, because most entities – private and public, nonprofit and governmental – are still not doing enough to protect sensitive data.

It's not the hard documents fraudsters are after. They prefer digital data because they don't need access to their victims' physical locations to obtain it. A skilled fraudster can break into business servers and steal sensitive card information from across the world.

Theft of digital documents also does not require grabbing original files. For example, when a physician's office is broken into, paper records were usually stolen, and that

The PCI digital dozen

1. Install and maintain firewalls.
2. Do not use vendor defaults for passwords or other security purposes.
3. Protect stored cardholder data.
4. Encrypt cardholder data for transmission across open, public networks.
5. Use and regularly update anti-virus software.
6. Develop and maintain secure systems and applications.
7. Restrict access to cardholder data to those business units that absolutely need it.
8. Assign unique IDs to each person with access to company computer systems.
9. Restrict physical access to cardholder data.
10. Track and monitor all access to network resources and cardholder data.
11. Regularly test security systems and processes.
12. Maintain a formal information security policy.

is the telltale sign of a break in. With digital theft there is no paper trail; data can be duplicated instantly without disruption or notice.

The importance of control

Control measures are one of the most important parts of maintaining secure business practices. The human element is the hardest part to control. This is where PCI and HIPAA compliance come in.

The PCI DSS restricts access to cardholder data to minimize the risk of sensitive data being stolen. Access should be limited to people who have a business case for access. Also, each authorized person must present a unique ID before being able to view the information, and a full audit trail for access must be in place.

PCI requirements are tiered; the amount of data to be protected will affect the level of PCI compliance a given business must meet. HIPAA covers all health care providers who have access to and store sensitive medical data. The PCI DSS covers anyone who processes and stores credit card information.

The rigors of PCI

To obtain full PCI compliance one must follow certain actions. While HIPAA's guidelines are more than three times larger than the PCI DSS, HIPAA does not so much explicitly set forth specific actions as provide processes to help determine what to do. HIPAA distinguishes between "required" and "addressable" actions and seems to empha-

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size general rules overall, while PCI DSS guidelines are direct and specific, making PCI compliance a more rigorous and intensive process. For instance, a network administrator of a hospital billing system that contains both credit card and medical information must ensure that the hospital's system is both HIPAA and PCI compliant. Here is an example of what each standard requires.

PCI DSS standard 8.3 stipulates that remote system-level access must use two-factor authentication (commonly, a password and an ID badge or time card). However, someone with application-only access is not mandated to use strong, two-factor identification.

HIPAA requires three steps: determine the authentication applicability, evaluate options, and select and implement the option. (This rule is for someone with access to the whole record or system.)

The risks of noncompliance

Protecting cardholder and patient data is extremely important. Those who process, store or transmit credit card data must be PCI compliant.

Failure to be compliant can result in costly fees, including additional fees from merchant banks, and even the loss of the ability to process credit cards. This can be devastating to any business.

Merchants seeking PCI DSS compliance must take many things into consideration. It is their responsibility to find service providers who are and will remain PCI compliant. Said providers must offer safe, reliable solutions for merchants; they must also be vigilant about maintaining PCI compliance.

In addition, merchants must realize PCI compliance involves more than partnering with a compliant service provider. It also requires a potential change in their business practices. Failure to adapt can cause more fees and fines.

A possible collaboration

Given the distinct approaches of PCI and HIPAA requirements, it is easy to conclude the PCI DSS guidelines are more strict and precise than the HIPAA guidelines. Could the organizations responsible for managing the HIPAA and PCI standards create a joint venture to ease the compliance process for merchants and ISOs? Would such a joint venture help you? 🔲

Nicholas Cucci is the Marketing Director for Network Merchants Inc. He is a graduate of Benedictine University. Prior to joining NMI, 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 or 800-617-4850.

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Education (continued)

Budgeting:
A crucial management skill – Part 2

By Vicki M. Daughdrill

Small Business Resources LLC

Establishing a budget and adhering to it isn't easy, but it's the best way to make sure your money goes where you need it to go. As I mentioned in "Budgeting: A crucial management skill," *The Green Sheet*, Aug. 9, 2010, issue 10:08:01, creating an annual budget, like any management activity, requires time and effort.

However, if you invest the time to create a comprehensive and realistic budget, you can manage your business more easily and more effectively. Once completed, your budget can help you control your expenses so that you spend money in predetermined ways, generate sufficient income to cover your expenses and make a profit, and assure that you attain your business objectives.

It is important to create a realistic budget, one that you can follow. A budget is a flexible document that can be amended as needed; however, if you do a good job developing your budget using practical, down-to-earth figures and assumptions, amendments and adjustments will be few and far between. This article provides a step-by-step guide to assist you in creating your budget.

Gather information

Here is a list of information you will need to help you plan and organize your income and expenses for the coming year.

- Copies of the previous year's bank statements
- Copies of the previous year's credit card statements
- Invoices for items purchased for resale
- Copies of lease agreements, utility bills, payroll figures, insurance statements
- A detailed list of all sources and amounts of income
- A list of all expenses, providing as much detail as possible
- A list of all tax payments along with the due dates

Set your direction

Think about the direction you want your company to take. Make a list of your values. Write down what is important to you and how you want to conduct business. Then prioritize items in order from most to least important. For example, is it more important to provide top quality service to your customers than it is to have the greatest possible number of sales?

Write down your goals

Consider what you want to accomplish financially, formulate your goals and write them down. Then determine the steps you will take to attain them. (For more information on setting goals, see "Dreams fulfilled: Six easy steps," by Jason Felts, *The Green Sheet*, Dec. 22, 2008, issue 08:12:02.)

Project your income

Identify your sources and levels of income from previous years. Evaluating the current economic climate, determine if projected sales for the coming year will likely remain flat, increase or even decrease. Be realistic. Remember, you want to project your income conservatively. Being overly optimistic can make your entire budget inaccurate almost immediately, and you will need to modify it to reflect actual income.

Evaluate your expenses

There are two types of expenses: fixed and variable. According to Wikipedia, "fixed costs are business expenses

that are not dependent on the level of goods or services produced by the business and that do not change as a function of the activity of a business, within the relevant period. For example, a retailer must pay rent and utility bills irrespective of sales."

Examples of fixed costs include:

- Rent or mortgage payments
- Utilities
- Telephone service
- Website registration, maintenance and updates
- Loan payments
- Lease payments
- Dues and subscriptions
- Advertising
- Business insurance
- Accounting fees
- Office supplies and expenses such as postage, stationery, etc.
- Payroll expenses, benefits and taxes
- Auto or travel expenses

Wikipedia defines variable costs as "expenses that change in proportion to the activity of a business. Variable costs are sometimes called unit-level costs, as they vary with the number of units produced."

Examples of variable expenses include:

- Raw materials
- Items purchased for resale
- Hourly wages
- Commissions
- Packaging, mailing, postage and handling charges

Remember, in budgeting expense items, it's better to overestimate than underestimate.

Assess your profitability

Once you've reviewed your income and expenses, determine if your projections will allow your company to make a profit. If you need additional profit, adjust your budget by both increasing revenue and decreasing expenses. The equation will not work unless you complete both activities. Here are some

suggestions to help increase revenue:

- Increase the number of units sold.
- Increase the profit margin (the difference between what the unit costs to acquire and how much you sell it for).
- Diversify your product offerings: offer something different, unique or an add-on.
- Cross-sell with other products.
- Step up customer service. Satisfied customers lead to referrals and more customers.

Once you've adjusted your revenue figures (remembering to keep them realistic and conservative) look at your expenses. Begin with the fixed costs. Determine if there are ways you can reduce them. Here are some ways you may be able to slash fixed expenses:

- Question how much you spend on rent. Ask if you can rent a smaller place, negotiate a lower rate, or eliminate this expense completely and work from a home office.
- Conduct a thorough assessment of your insurance and tax records. Discuss ways to reduce your tax liability with your accounting professional, and ask your insurance agent to help you determine if your insurance coverage is necessary and, if so, whether you are paying the lowest premiums possible.
- Meet with your banker to consider refinancing some of your debt into lower interest rate instruments.
- Evaluate your staffing needs. Can any tasks be outsourced to independent contractors to help lower payroll and benefits costs?

Education

Next, review your variable expenses. Since these expenses are directly related to the number of items you produce or sell, you have more control over them. For example, you can aggressively shop the prices of items you purchase for resale and negotiate a favorable pricing structure; if sales are lower than projected, you can eliminate part-time workers; or you can seek more efficient, less costly ways of shipping or delivering merchandise.

Create your budget

Once your evaluation and assessments are complete, draft your budget document. Numerous products exist to assist you with establishing a budget document, including:

- Accounting software such as Peachtree and DacEasy from Sage or Intuit QuickBooks
- Spreadsheet software such as Microsoft Excel or OpenOffice Calc
- Printed books and guides pertaining to business budgets
- Internet searches using terms like "creating a budget" or "business budget"

Here are some final tips to keep in mind as you create your budget:

- Use figures from prior years only as a starting point. Remember, the economy is different each year, so your figures will change each year, too.

- Create a realistic budget that you can follow. It is pointless to create a budget that is not grounded in fact and reality.

- Find a system that works for you. It can be a complex computer software package or a simple pencil and columnar pad.

- Look at industry standards for your type of business. These guidelines can help you determine if your figures are in line with similar businesses.

- Evaluate your budget regularly. If your income is lower than projected, the earlier you adjust both your income and expense figures, the more likely you will be to achieve the profit goals you set when you began the process.

Good luck as you draft your budget for fiscal year 2011. It will be another challenging year for small businesses, but this important tool can help you realize your professional dreams.

Vicki M. Daughdrill is the Managing Member of Small Business Resources LLC, a management consulting company. E-mail her at vickid@netdoor.com or call her at 601-310-3594.

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Automated, but not ignored, billing

Product: Information & Analytics Services

Company: First Data Corp.

Using a vast bed of data culled from the transaction information of the millions of merchants it serves, First Data Corp. has developed a three-pronged reporting suite called Information & Analytics Services.

According to First Data, the suite contains tools that allow merchants to view different data pertaining to their vertical market, to receive reports counseling them on prudent decision-making based on such data, and to splice and analyze data from their own businesses in any number of ways.

"First Data is one of the largest payment processors, which gives us really unique insights into how consumers are behaving at the point of sale, and that data-driven insight is the real goal," said Silvio Tavares, Senior Vice President and Head of Investor and Analyst Relations for First Data.

The three offerings

Information & Analytics Services comprises three different offerings, and merchants can subscribe to any combination of the three. The first is First Data SpendTrend, which provides aggregated data of consumer spending trends within a given vertical; for example, sales trends for the restaurant industry in a given month compared with the previous month (or some other time period). That information goes out every month except for the hectic final two months of the year, when it comes out biweekly, Tavares said.

"We also provide more granular and detailed data … like statistics on average tickets," Tavares said. "So, what was the average purchase size? If I'm a retailer and my average ticket is going down and the rest of the industry is going up, that's an important indicator that I need to be doing something differently."

Tavares said the company's SpendTrend reports tend to correlate closely with the U.S. government's monthly Advanced Retail Sales Report. The difference, he said, is that SpendTrend comes out right at the end of each month, while the government's report is issued up to two weeks later.

"The ability to have that data early on allows a merchant to adjust how they promote or price their services at the inventory levels and ultimately to sell more goods and

Features of **Information & Analytics Services** include:

- Three-pronged reporting suite
- Monthly reports, biweekly in November and December
- Customized advice for distinct merchant verticals
- Ability for merchants to splice their own data
- Data updates through SMS messages

services," he said. "The timeliness of the data is a critical component."

The second offering is First Data Advisors, which provides consultative advice to merchants. Some of that advice is provided within generic reports issued by the company each month; other feedback is customized based on a specific request by a particular merchant.

For instance, a merchant experiencing high levels of fraud may solicit feedback about how to bring those levels down. First Data may notice a particular trend – a correlation between a certain kind of card and high fraud levels, for example – that helps the merchant root out fraud by zeroing in on a specific target.

Giving merchants extra control

The third offering within Information & Analytics Services is First Data Reporting, which provides merchants tools that allow them to make their own intelligent queries within an online portal.

"A merchant, especially a large merchant, might want to hone in on Florida and see how stores are doing there, what percentage of payments at the point of sale are credit card versus debit card," Tavares said. "We're focusing on creating tools to let merchants do more of that sophisticated analysis of their own transaction information."

Tavares added that First Data is developing programs that give merchants real-time updates about transaction data, fraud activity and other business-related developments through short message service (SMS) messaging. For example, merchants would get SMS-based information about the size of their daily deposits and the time deposits were made, or an alert that possible fraudulent activity has been detected at a given merchant location.

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Inspiration

> I've learned that you shouldn't go through life with a catcher's mitt on both hands. You need to be able to throw something back.
> – Maya Angelou

Opening doors through community service

Professionals of all stripes recognize the value in maintaining industry ties though professional organizations and networking. But giving back to our communities often takes a back seat to career advancement. Winston Churchill once said, "We make a living by what we get, but we make a life by what we give."

Under the current economic climate, many local programs, from youth sports to food banks to service organizations, are in dire need of both financial and volunteer support. Concurrently, local programs are suffering due to budget cutbacks and shrinking financial donations as philanthropists scale back. Ample opportunities exist to donate time to local community programs. Not only does it help improve the community, but volunteering offers opportunities to build relationships with other community leaders. Down the road, when the local market owner is looking for a new payment processor, he or she may recall the person who picked up the donation for the local food bank.

Service club camaraderie

Established service clubs provide a gateway to volunteerism for many professionals. Joining such an organization brings together an instant group of like-minded contacts. A diverse range of organizations exists, so volunteers can become involved in initiatives that mean the most to them.

For example, Rotary International, with 1.2 million members in 33,000 clubs worldwide, has volunteers working to combat hunger, eradicate polio, improve health and sanitation, and provide education and job training. The Elks organization is committed to scholarships, youth activities, veterans programs and community investments. Lions Clubs International strives to empower people to serve their communities, meet humanitarian needs, encourage peace and promote international understanding. Optimist International conducts positive service projects that target youths.

Local programs for youths and adults

Opportunities to serve are diverse, as are the types of skills needed. Youth programs survive on the shoulders of adult volunteers and run the gamut from tutoring and mentoring to coaching youth sports. Most communities have youth centers or clubs that can be excellent places to search for programs in need.

Don't have time to volunteer? Consider sponsoring a youth sports team or enrichment program. (Your logo just might appear on the uniform worn by the child of your next sales contact.) Local programs also seek assistance with homeless shelters, literacy programs and advocacy services, among other projects.

In giving back to your community, you'll likely find that the more helpful you are the happier you'll be.

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Paul H. Green, President and CEO

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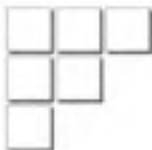
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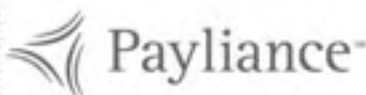
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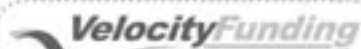
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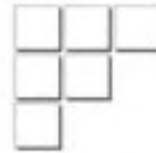
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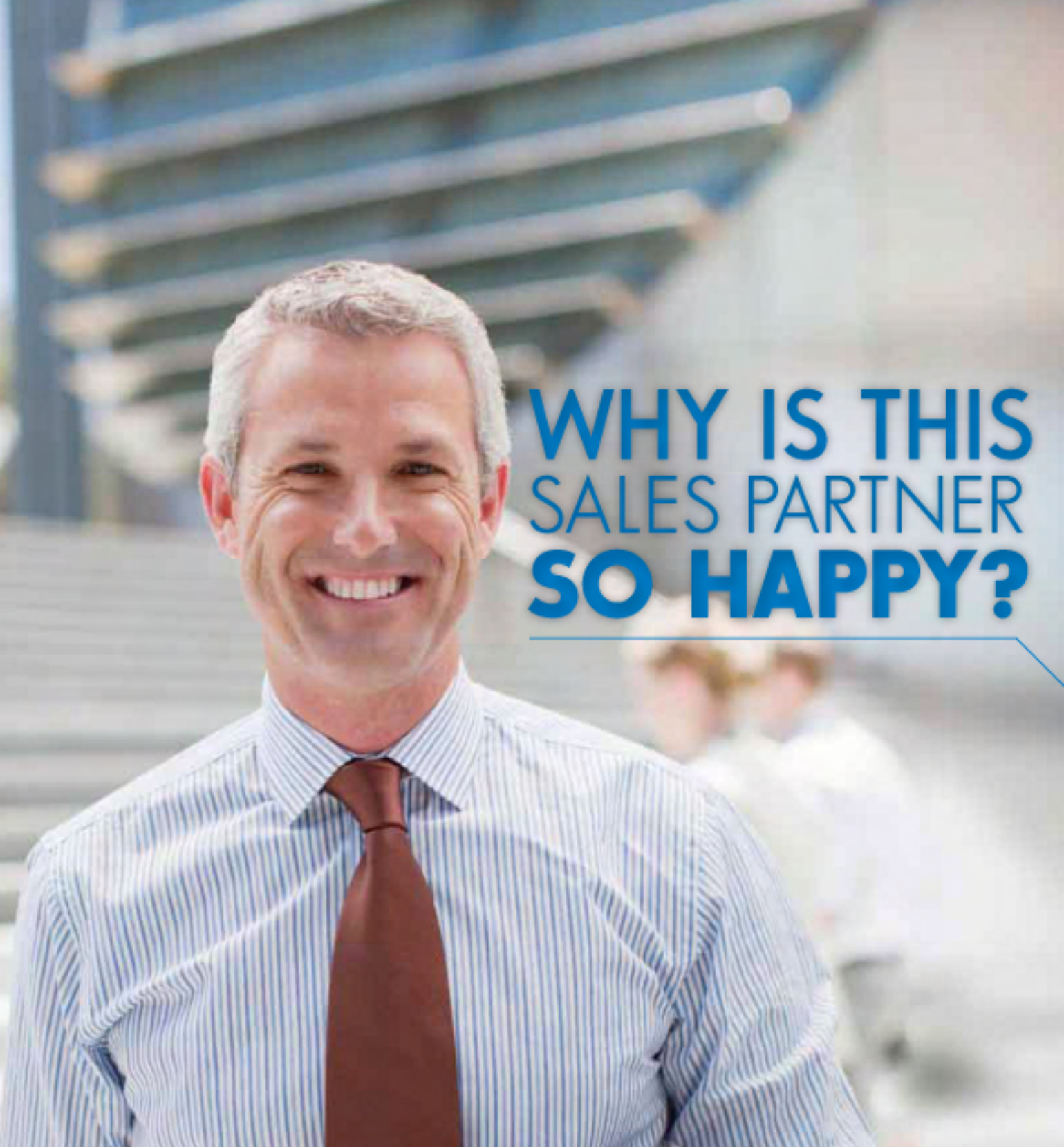
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