Exclusive: Trends and Insights from TRANSACT PAGE 18

May/June 2017

TRANSACTION *trends*

THE OFFICIAL PUBLICATION OF THE
ELECTRONIC TRANSACTIONS ASSOCIATION

Market **Changes**

The latest discussions on M&A, portfolio valuations, and short-term trends

ALSO INSIDE:

Payment Pro's Guide to Advocacy
PAGE 8

Why M&A Is Booming
PAGE 10

What's Your Merchant Portfolio Worth?
PAGE 14

Modernizing the POS
PAGE 22

We didn’t make a $2 million commerical and you still found our ad.

We focus on results, not flash.

We provide agents and ISOs with the latest tools, products and resources to help *get **more*** customers, and ***keep*** them longer.

Contact us to learn how we can help build your business.

(Or if you’re considering a $2 million commercial)

iPayment®

Learn more at **iPaymentInc.com**

TRANSACT®

POWERED BY ETA

Congratulations to the Discover ISO Scholarship Winners!

- ADEPT BUSINESS SOLUTIONS
- BATCHOUT
- CITCON
- DAXKO
- DHARMA MERCHANT SERVICES
- E-COMMERCE EXCHANGE
- FIRST UNITED SYSTEMS, INC.
- IMPACT PAYSYSTEM
- INDYHOST.NET
- LIDOMA BUSINESS SOLUTIONS
- PAYWORKS
- PRIORITY PAYMENTS EAST
- SECUTRANS

GENEROUSLY SPONSORED BY

DISCOVER®
GLOBAL NETWORK

CONNECTING THE PAYMENTS TECHNOLOGY WORLD

"HOW I TURNED A $450 INVESTMENT INTO $48 MILLION!"

Eric Bostic
ETA CPP

Getting the ETA CPP credential was the game-changer for Eric Bostic's career.

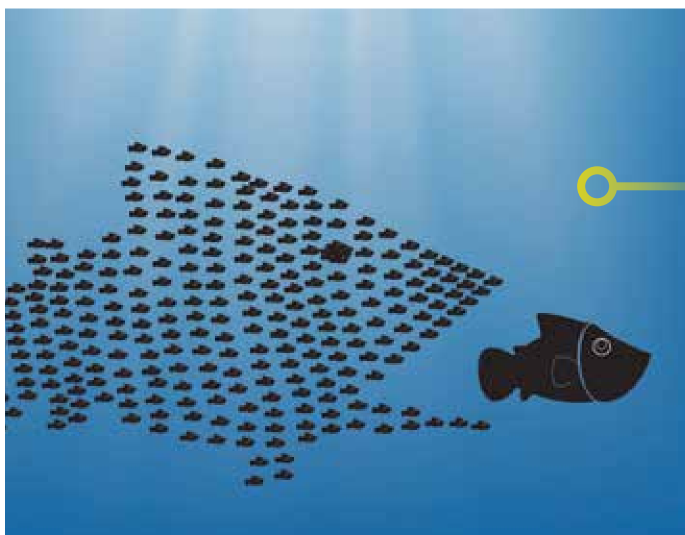
When the CFO of a $48 million account had to choose an agent, Eric's ETA CPP became the deciding factor. His credential not only gave him added confidence, it represented knowledge and a level of integrity his client found reassuring. See how adding six letters to your name can be your smartest investment.

Take the next step in your career.
*Visit **electran.org/etacpp***
today to get started.

Only the *CERTIFIED* will *THRIVE!*

contents

The Official Publication of the Electronic Transactions Association Vol. 22 | No. 3



features

10 Feeding Frenzy?
By Ed McKinley
M&A activity is booming in the payments business, and analysts say it's likely to continue. Here, we explore recent actions among larger players and tech companies, and we search for insights on what's going on in the market.

14 The Perfect Plan
By Ed McKinley
Thinking of selling your merchant portfolio? We quizzed a handful of experts on the ins and outs of buying and selling, and how to determine value in today's market. Bottom line: Start planning early to get the best deal.

18 TRANSACT Trends
At TRANSACT, much of the conversation centered on payments innovations, technology, and friction-less commerce. We spoke to five leaders at companies across the payments profession to see which trends their businesses are banking on and the implications for payments professionals in the short term.

departments

4 @ETA Announcements and ideas from ETA's CEO Jason Oxman

5 Intelligence Vital facts and stats from the electronic payments world

8 Politics & Policy Political, economic, and advocacy updates affecting your business

22 Comments
Strategies for helping merchant clients upgrade their POS

23 Ad Index

24 People Meet Bob Leonard, CEO of iMobile3.

Electronic Transactions Association
1620 L ST NW, Suite 1020
Washington, DC 20036
202/828.2635
www.electran.org

ETA CEO Jason Oxman
COO Pamela Furneaux
Vice President, Strategic Partnerships Del Baker Robertson
Director, Communications Meghan Cieslak
SVP, Government Relations Scott Talbott
Vice President, Industry Affairs Amy Zirkle
Director, Regulatory Affairs Philip (PJ) Hoffman
Director, Education & Professional Development Jessica Mosley

Publishing office:
Content Communicators LLC
PO Box 938
Purcellville, VA 20134
703/662.5828

Subscriptions: 202/677.7411

Editor
Josephine Rossi

Editorial/Production Associate
Christine Umbrell

Art Director Janelle Welch

Contributing Writers
Alan Finlay, Ed McKinley, Josephine Rossi, and Scott Talbott

Advertising Sales
Alison Bashian
Advertising Sales Manager
Phone: 703/964.1240 ext. 280
Fax: 703/964.1246
abashian@conferencemanagers.com

Editorial Policy:

The Electronic Transactions Association, founded in 1990, is a not-for-profit organization representing entities who provide transaction services between merchants and settlement banks and others involved in the electronic transactions industry. Our purpose is to provide leadership in the industry through education, advocacy, and the exchange of information.

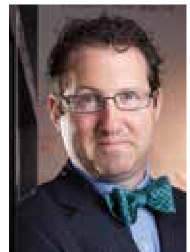
The magazine acts as a moderator without approving, disapproving, or guaranteeing the validity or accuracy of any data, claim, or opinion appearing under a byline or obtained or quoted from an acknowledged source. The opinions expressed do not necessarily reflect the official view of the Electronic Transactions Association. Also, appearance of advertisements and new product or service information does not constitute an endorsement of products or services featured by the Association. This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is provided and disseminated with the understanding that the publisher is not engaged in rendering legal or other professional services. If legal advice and other expert assistance are required, the services of a competent professional should be sought.

Transaction Trends (ISSN 1939-1595) is the official publication, published six times annually, of the Electronic Transactions Association, 1101 16th St. N.W., Suite 402, Washington, DC 20036; 800/695-5509 or 202/828-2635; 202/828-2639 fax. POSTMASTER: **Send address changes to the address noted above.**

Copyright © 2017 The Electronic Transactions Association. All Rights Reserved, including World Rights and Electronic Rights. No part of this publication may be reproduced without permission from the publisher, nor may any part of this publication be reproduced, stored in a retrieval system, or copied by mechanical photocopying, recording, or other means, now or hereafter invented, without permission of the publisher.

The Payments Industry Is Changing, and ETA Is, Too!

Technological advancements in electronic payments are redefining our industry. Today, 70 percent of U.S. consumer spending happens electronically, and our industry processes more than $6 trillion in card payments each year. Payment card transactions increased 16 percent last year. Mobile wallets and peer-to-peer payments are growing exponentially; and new players, from startups to software companies to payment facilitators, are making waves.



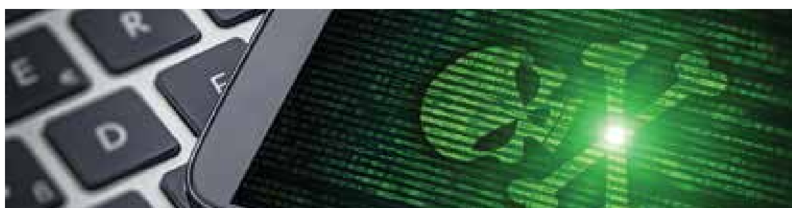
For nearly three decades, ETA has charted the future of payments as the trade association of our industry. We have created a community of titans and new entrants, major corporations, and entrepreneurs. We represent the payments ecosystem as a whole—the sales channel, card brands, processors, equipment manufacturers, software developers, technology companies, venture investors, and beyond.

Our recently released "ETA–Goldman Sachs Annual Merchant Acquirer and ISO Survey" forecasts an exciting future for payments, with nearly two thirds of the industry expecting faster payment volume growth in 2017. Partnerships, especially for smaller entities, will drive market expansion.

To meet the growing needs of our ever-changing industry, this year ETA is adding new networking opportunities including fly-ins, tech events, and policy days. We're expanding our advocacy initiatives, and we're increasing our educational offerings to serve our growing and diverse membership. And we've enhanced our communications and created new channels to tell your success story. When it comes to benefiting your business, no other organization comes close to matching the value you get through ETA.

At ETA, we continually track, predict, and address our industry's needs, because ETA members don't just follow the trends—they set the trends. As the industry changes, one thing remains steadfast: ETA is on the front lines working for you, providing the best in education, unmatched events, and top-tier advocacy, and keeping the spotlight on our member-companies' successes, innovations, and solutions. Keep on disrupting!

Jason Oxman
Chief Executive Officer
Electronic Transactions Association



‘Sideloading’ Puts Mobile Bankers at Risk

Consumers’ increasing reliance on smartphones is putting them at greater risk of malware intrusions, according to the “2017 Mobile Banking Malware Report” from Javelin Strategy & Research. Fraudsters are finding ways to take advantage of consumers’ acceptance of mobile shopping, mobile wallets, and person-to-person (P2P) payments, according to the report. “Although mobile malware is still a nascent threat in Western markets, the potential risk is tremendous as malware operators and fraudsters shift their focus from foreign markets to the U.S.,” said the report authors, Al Pascual and Kyle Marchini.

The greatest malware threats stem from “sideloading,” the practice of downloading apps from unofficial app stores. This activity leads to an elevated risk of mobile malware infections and fraud, according to Javelin. The research firm estimates that approximately 7.7 million consumers who use mobile banking services take part in sideloading activities, representing $221.5 billion in assets. Though official app stores typically screen apps for malicious features, unofficial app sources may not have the same screening processes in place.

Smartphone users who leverage mobile wallet and P2P capabilities are particularly susceptible to attacks and are 75 percent more likely to expose themselves to mobile malware. While only 6 percent of smartphone users overall report engaging in sideloading, “more than 10 percent of mobile P2P and mobile wallet users have downloaded apps from third-party app stores, exposing themselves to elevated risk of malware infection,” Javelin reported.

Pascual and Marchini suggest that financial institutions begin securing apps and adapting authentication to address the threat of mobile malware before it fully migrates to Western markets.

Fast Fact

In 2016, **nearly 98 percent of all recorded point-of-sale attacks** resulted in a confirmed data breach. The focus of attacks has shifted from hotel chains to restaurants and small businesses.

Source: “2017 Verizon Data Breach Investigations Report”

Reports: Mobile Payment Volume Amplifies in China

Consumers in China are ramping up their mobile payment purchases, according to the “Internet Trends 2017—Code Conference Report,” written by Mary Meeker and published by Kleiner Perkins and Hillhouse Capital. The analysis indicates that mobile payment volume rose to more than $5 trillion in 2016, which is more than double 2015 volume. Most mobile purchases in China are being made using AliPay (54 percent) and WeChat Pay (40 percent), according to the report. These two payment platforms have relatively low merchant discount rates compared to U.S. credit cards and PayPal.

Convenience tops the list of reasons for using mobile payments in China, according to the research. Consumers also are using mobile payments to replace cards and to earn rebates, among other reasons. The report also indicates that mobile payments offer a gateway for China’s internet leaders to offer diversified financial services platforms.

China’s business-to-consumer e-commerce is experiencing significant growth, and is largely mobile by value. While approximately $200 billion in e-commerce desktop purchases were recorded in 2016, more than $400 billion in mobile e-commerce purchases were made, according to the report, which cites iResearch data.

In a separate report released by the China National Commercial Information Center, the value of China’s e-commerce market accounted for 39.2 percent of the global market at the end of 2016, rendering it the largest globally for consecutive years in terms of trading value. Online shopping consumers numbered 467 million last year, according to the report.

Cyber Thieves Home in on Financial Institutions

Cyber attacks targeting corporations and financial institutions spiked in 2016, according to the "Internet Security Threat Report (ISTR): Financial Threats Review for 2017" from Symantec. A series of high-value heists targeting Society for Worldwide Interbank Financial Telecommunication customers cost several institutions millions of dollars to cybercriminals and nation state-supported attackers such as the Lazarus Group, according to Symantec.

The report notes that 38 percent of the financial threats detected by Symantec in 2016 were found in large business locations, with the majority of the infection attempts originating as email campaigns. "With more than 1.2 million annual detections, the financial threat space is still 2.5 times bigger than that of ransomware," according to the report.

Other findings from the 2017 ISTR report include the following:

- The 2016 Lazarus attacks represented the first time there was a strong indication of state involvement in financial cybercrime.
- Three threat families—Ramnit, Bebloh, and Zeus—were responsible for 86 percent of all financial threat attacks.
- The top three countries hit with the most infections were Japan, China, and India.
- Financial institutions in the United States were targeted the most, followed by Poland and Japan.
- Mobile banking malware targeted at least 170 apps for credential stealing.

2017 Deemed a Year of Growth for Consumer Spending

Economic trends suggest that 2017 will be a growth year for consumer spending, according to the "Economic Indicators Report" released in May by ETA and The Strawhecker Group (TSG). Retail sales (minus gas) are predicted to increase 4.1 percent in 2017, which would mark the best growth in three years.

The report notes that consumer spending is a "key ingredient" in the economy, comprising between 50 and 75 percent of gross domestic product (GDP). Increased use of electronic payments boosts consumption and GDP: "Many economists have suggested that a 1 percent increase in usage of electronic payments produces, on average, an annual increase of approximately $100 billion in the consumption of goods and services," the report states.

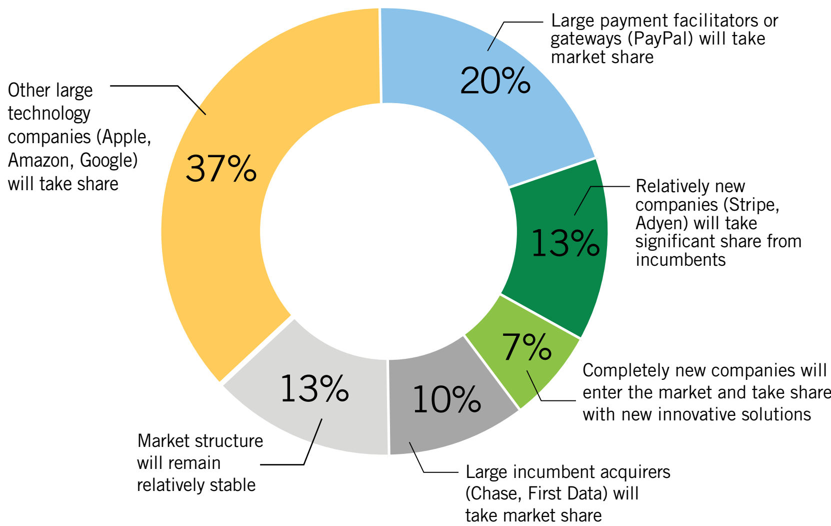
Other significant findings from the "Economic Indicators Report" include the following:

- Increased use of electronic payments makes the economy more efficient. Increased usage reduces transaction costs, improves the flow of goods, and assists consumers by making purchasing more convenient.
- Electronic payment usage benefits governments, which can collect more tax revenue due to more transparent transactions that can be taxed more readily.
- Encouraging the growth of electronic payments provides consumers and merchants a choice and increases competition. Policy measures that promote electronic payment solutions are found to improve the economic environment.

Infographic

Large Tech Companies and Payment Facilitators Most Likely Disruptors, Say Acquirers, ISOs, and ISVs

In the e-commerce market, how do you expect the market structure to change over the next three years?



Source: "ETA–Goldman Sachs Annual Merchant Acquirer and ISO Survey," Spring 2017

Contactless Card Transactions To Exceed $2 Trillion by 2021

The value of contactless transactions made via payment cards, mobile, and wearables is forecasted to reach $1.3 trillion worldwide by 2019, more than doubling the 2017 estimate of $590 billion, according to a new report from Juniper Research. The firm also predicts that contactless transactions via debit and credit cards will total more than $2 trillion globally by 2021.

Types of contactless transactions vary by country, according to the researchers. In 2016, mobile wallets accounted for 90 percent of all contactless transactions in the United States; however, cards accounted for more than 90 percent of transactions in many European markets and Canada.

In non-U.S. markets where cards dominate, "it will be difficult for mobile wallet providers to gain existing market share from contactless cards," reported research author Nitin Bhas. "It is therefore incumbent upon them to deliver innovative services through which the mobile wallet will become the default payment mechanism."

Moves & Mergers

Cayan, a payment technology company, has announced its acquisition of Card Payment Services, a payments processing company specializing in the waste removal vertical.

ControlScan Inc., a PCI compliance and security company, and EchoSat Inc., a payments security provider, are merging to allow the companies to more effectively serve the compliance and security needs of their combined client base. The combined organization will operate under the ControlScan name, and will maintain its headquarters in Alpharetta, Georgia. Mark Carl, CEO of EchoSat, will be the CEO of the combined organization.

First Data Corporation and **CardConnect Corp**. have entered into a definitive merger agreement for First Data to acquire all of the outstanding shares of common stock of CardConnect. "This transaction is consistent with our strategy of integrating and scaling innovative technologies across our distribution footprint to better serve our partners and customers," said First Data Chairman and CEO Frank Bisignano.

iPayment Inc., a provider of payment and processing solutions for small and medium-sized businesses, has hired Timothy Stahl as vice president, risk. Stahl will be responsible for establishing critical strategic capabilities for the organization.

North American Bancard Holdings, a payment solutions provider, has announced an agreement to acquire **Total Merchant Services**, a payments solutions provider to small and medium businesses. The combined entity will be the seventh largest processor in terms of merchant locations in North America, processing nearly $50 billion annually, according to press statements.

Payroc LLC, a merchant services and payment processing organization, has acquired the assets of payment gateway and merchant account provider The iTransact Group LLC. The transaction will add 300 advisor referral partners and 6,000 merchants with more than $1.3 billion in annual processing volume to Payroc's business, according to a press release.

A Payments Professional's Guide to Advocacy

Use your voice to advance the payments industry

By Scott Talbott

The payments industry faces a confusing and costly labyrinth of government policies. At ETA, we know that the decisions made in Washington, D.C., and in state capitals can have a profound effect on the payments industry. This is true as policymakers examine changes brought on by fintech, like new products and lower costs. Policymakers are currently looking at the payments industry as a source of tax revenue and to impose new regulations.

To help shape or defeat these threats, policymakers must know what is important to payments professionals, how the payments industry affects their constituents, and the importance of the payments industry to the economy.

Amplify Your Voice

Dating back to colonial times, advocacy—specifically grassroots advocacy—has been a powerful way to lobby policymakers in our nation. It was so important that the Founding Fathers enshrined the right to petition our government in the Constitution.

What makes grassroots messages so powerful to policymakers is that the messages come from the people most affected by the proposed policy change. That these citizens are taking time away from running their business, household, or both to weigh in on an issue is impactful. They are not professional advocates but rather regular Americans exercising their constitutional rights.

While the concept of everyday citizens lobbying their government hasn't changed, grassroots efforts have. As recently as a few years ago, grassroots principally relied on phone calls and snail mail to organize and advocate. The process was labor-intensive and took weeks to mobilize. Today, with the use of email, Twitter, online petitions, and other social media, Americans can easily, inexpensively, and quickly interact with public officials. In this rapidly changing political landscape and the 24-hour news cycle, these developments make grassroots efforts easy to organize, highly effective, and a crucial tool to make your voice heard.

Find Strength in Numbers

As an ETA member, you are already helping ETA play an active role in advocating for the payments industry. Because of your support, ETA is the leading organization advocating for the payments community in Washington, D.C. and in the state capitals. ETA is a key source of information for legislators and regulators on how the industry works and the potential ramifications of any policy changes.

ETA provides its members with a powerful voice. We offer a wealth of knowledge and resources that are critical for businesses. A trade association has more leverage to advocate for its members and provide a unified voice across the industry by bringing companies of all sizes together. Belonging to ETA gives your business political clout and the opportunity to have a voice that helps shape policies that will affect our industry.

Participating in ETA allows you to have an active voice on issues pertaining to the future of payments. ETA offers strength in numbers as well as an experienced presence in Washington.

Participate in Fly-Ins

Payments issues are in the spotlight with policymakers in Washington, D.C., and now is the time for the payments industry to make its collective voice heard. The annual fly-in is a great opportunity for ETA members to meet with members of Congress who serve on the two Congressional Payments Caucuses and federal regulators to discuss issues facing our industry and to provide insight into how our industry works.

The entire ETA Government Affairs team—Rebecca Cantrell, PJ Hoffman, and Grant Carlson—will lead groups of ETA members in discussions of the latest in payments technology, data security, and other current topics. The fly-in will be held on September 13 in conjunction with ETA's annual FinTech Policy Forum on September 14.

A Word About PACs

A Political Action Committee—or PAC—is a type of organization that is formed to raise and contribute money to the campaigns of candidates who are likely to advance the group's interests. PACs can be formed by organizations, businesses, or individuals and allow for the pooling of voluntary contributions to support candidates for office. Through a PAC, contributors can build stronger relationships with candidates who understand and support the needs of their industry.

ETA's PAC is a tool in helping amplify the reach of ETA in Washington, D.C. Federal law prohibits ETA PAC from soliciting contributions from persons other than the executive and administrative personnel of its member companies that have given prior authorization. Please contact me at stalbott@electran.org for a prior authorization form.

I urge you to take a minute now to learn about ETA's advocacy efforts by visiting www.electran.org/public-policy. Please explore the website and familiarize yourself with the public policy issues that can affect your company. Make it a priority to stay abreast of legislative developments and contact your elected officials.

Remember: You are the voice of payments. Raise your voice and make it heard! ***TT***

Scott Talbott is senior vice president of government affairs at ETA. For more information, please contact Talbott at stalbott@electran.org or Grant Carlson, government affairs specialist, at gcarlson@electran.org.

Join Us!
MWAA
July 18-19
Chicago, IL
EMV Solutions
AVAILABLE NOW!
USAePAY
smart solutions for secure payments
Mobile
Retail
Ecommerce
Free Tokenization
ACH Check
Fraud/Developer Tools
USAePAY
USAePAY Established 1998
866.490.0042
USAePay.com
USAePay/

Feeding Frenzy?

Analysts and consultants ponder what's behind the seeming wave of M&A in payments

By Ed McKinley

Mergers and acquisitions (M&A) are booming in the payments business, a trend that appears likely to continue for many reasons. Drivers include increasing technological complexity, growing security concerns, the expansion of a maturing market, consolidation of staffs and facilities, an infusion of outside capital that's attracted by recurring income, and a willingness to take a chance to increase return on investment (ROI).

But there's also a simpler way of viewing what's happening in the payments industry, says Richard Crone, CEO of Crone Consulting. Anyone observing the market's hectic pace of buying and selling can keep the action in perspective, he suggests, by thinking of it as bigger fish swallowing smaller ones. "And there's always a bigger fish," he adds.

Ichthyology aside, sustainable recurring revenue attracts investors to payments companies, says Peter Michaud, director of project management for The Strawhecker Group. The residuals paid on the acquiring side of the business serve as an obvious example of recurring earnings, but the phenomenon doesn't end there, sources say. The very foundation of electronic payments—the plastic cards that consumers carry and use repeatedly—is built upon recurring revenue.

To establish and retain a technological advantage, payments companies often buy tech companies as a shortcut to gaining expertise, notes Jason Deleeuw, a Piper Jaffray senior research analyst. Industry players can succeed in the payments game when they wed tech savvy to strong distribution, he maintains. Moreover, payments integrated at the point of sale (POS) has itself become a distribution channel, much like the long-established channels of partnerships with merchant services providers, direct sales to merchants, and bank referrals, he says.

Part of that shift in distribution also can be understood as ISOs turning into independent software vendors (ISVs), and vice versa, explains Steve Eazell, vice president and national sales manager at Diversified Acquiring Solutions and president emeritus, co-founder, and board member of the Western States Acquirers Association.

Smaller and mid-size companies often react to such trends by making acquisitions, but acquisitions by the industry's largest players—including Visa, Mastercard, and PayPal—do the most to reshape the nature of payments, according to Gil Luria, director of institutional research for Montana-based D.A. Davidson. Almost every company in payments feels the effects after they expand, he says.

Examples abound of the big guys becoming bigger. Visa paid $23.4 billion to buy back Visa Europe in 2015, eight years after divesting itself of those operations when going public, according to reports published at the time. Visa regained its former geographic reach and became the world's biggest network by an even larger margin, Luria notes. Savings will accrue because marketing a single company costs less than marketing two companies, he adds.

In another example of a bigger fish at feeding time, PayPal bought Braintree for $800 million in 2014 to acquire expertise and technology in mobile payments. In the Braintree deal, PayPal also picked up Venmo, a mobile app that enables users to send funds to each other instantly and provides PayPal customers with a smoother checkout experience at the point of sale, Luria says.

Acquiring the social payments capability of Venmo represents the dog whistle that older observers can't hear, Crone says. "Why would anybody want to share their payment in a social ledger?" he asks rhetorically. "For millennials, that's how they live. They share everything." Venmo has grown by 150 percent in the last couple of years because younger consumers appreciate it, he says.

In 2015, PayPal strengthened its international remittances business by purchasing Zoom for $890 million. But some smaller PayPal acquisitions promise to rock the world of payments, too, Crone says. Take the example of PayPal spending a reported $280 million to acquire Paydiant in 2015. "It may not be on everybody's radar screen, but it will provide a pathway for PayPal into the physical point of sale," he notes.

Meanwhile, another giant of the industry, Mastercard, committed itself to the Automated Clearing House (ACH) business by announcing last year that it intended to buy U.K.-based VocaLink for $920 million, according to a Mastercard press release. The more business-oriented ACH capability complements Mastercard's existing consumer card network, and the company will expand the ACH network into additional counties, Luria predicts.

Lure of the Industry

While those purchases by the big fish may have the most far-reaching consequences of any of the industry's recent acquisitions, in Luria's view, they're not necessarily the first deals that come to mind when reviewing the last few years of payments M&A. Most observers think of the names Global Payments, Heartland, Vantiv, Mercury, TSYS, and TransFirst.

Global Payments completed its merger with Heartland Payments Systems last year, which, according to a company report, resulted in a combined organization of more than 8,500 employees worldwide, serving nearly 2.5 million merchants in 29 countries. Published reports noted that Global paid $4.3 billion for its competitor. Besides picking up Heartland's merchant accounts, Global can take advantage of Heartland's knowledge of tokenization and mobile payments, Crone says. Global also aimed to acquire Heartland's skills at maintaining a sales forces, suggests Eazell.

Global previously reported it bought Payment Processing Inc., better known as PayPros, for $420 million in 2014 to

improve its ability to deliver integrated payments. According to Global, PayPros was serving 58,000 small and medium-sized companies with the help of a network of more than 1,000 technology-based enterprise software partners.

Roughly three years ago, Vantiv announced its acquisition of Mercury Payment Systems for $1.65 billion, according to a company report. The merger combined technology, distribution, and scale, which, along with Vantiv's presence in online and omnichannel commerce, made Vantiv competitive in high-growth channels, the company claimed at the time.

Through the merger, Vantiv gained Mercury's ability to integrate payment capability into applications, Crone says. "That's as valuable as the book of business they bought because it will allow them to grow beyond," he predicts. As one of the first companies to recognize the value of ISVs, Mercury had developed integration abilities, says Eazell.

"Acquired companies benefit from M&A, too. **Startups encounter fewer hassles** when they're acquired than when they negotiate the rigors of going public."

– Richard Crone, Crone Consulting

TSYS paid $2.35 billion last year to acquire TransFirst, creating a combined entity supporting more than 645,000 merchants, a company report revealed. The professed motive resembled the driver in the Vantiv-Mercury deal, according to a TSYS press release: "The transaction enhances TSYS's offering and position in the high-growth areas of integrated payments, e-commerce, and omnichannel services."

Companies like Cayan and Harbortouch have sought out ISVs to purchase because ISVs not only have the technology for integration but also have formed relationships with merchants through the deployment of that technology, Eazell says. "They have a captive audience because of the fact that their credit card processing is built into the software," he continues.

The allure of technology also is evident in North American Bancard's (NAB) recent purchase of Total Merchant Services (TMS). NAB didn't reveal how much it paid for TMS, but a company report noted that it gained Groovv, a POS system TMS launched in 2014 for agents to sell to merchants. The combined company has an annual processing volume of $50 billion.

Another technological enticement of the M&A scene is embodied in the capacity to embed payments into the shopping experience through payment registration, in much the way Uber and Lyft make paying automatic, Crone observes. Examples include the experience of ordering ahead for lattes or burgers, he says.

"That's where payments is going, and there is a whole set of interesting candidates for acquisition in this space," Crone maintains. For example, Square bought a company called OrderAhead this spring for an undisclosed sum to bolster its position in the pickup business at restaurants. Yelp bought a food-ordering service known as Eat24 for $134 million in 2015. Meanwhile, Grubhub's stock price recently rose 25 percent in a couple of weeks, he notes.

It's also important to remember that the acquired companies benefit from M&A, too, says Crone. Startups encounter fewer hassles when they're acquired than when they negotiate the rigors of going public, he notes.

Chasing Payments

Then there's the often-overlooked "one-third rule" that influences growth-minded players in the acquiring business. Acquirers will continue to buy other acquirers, or their merchant portfolios, because only about a third of the market is in play at any given time, Crone says. That's because merchants tend to sign three-year contracts with their service providers, he contends. "So, if you want to grow quickly, you have to acquire a portfolio," he concludes.

ISOs that sell a portion of their portfolio usually do it to raise capital, notes Eazell. Having that option means a lot because bank lending has yet to recover fully from the Great Recession, he says. What's more, ISOs need the infusion of cash to finance the growth of their companies. "Margins are so small nowadays and attrition is pretty high—you've got to have a substantial bucket of new merchants to be relevant," he says.

Others decide to sell their portfolio simply because they've tired of the industry or reached their goal and want to embark upon their exit strategy from the business, says Eazell. The thought of selling enters the minds of some when the multiple used to value a portfolio reaches a high point, Eazell says. "It always fluctuates," he says of the multiple, but it's been high for a year and a half or so. Scarcity and competition drive up prices, so "it depends on supply and demand," he adds.

A lot of money is chasing merchant portfolios as venture capitalists have entered the market, explains Eazell. Angel investors also have been willing to lend funds for portfolio purchases, he notes. "There's no shortage of portfolio buyers," he maintains. "If you want to sell your portfolio, there's somebody out there who's going to buy it."

Still, only the worthwhile portfolios bring high prices, Eazell notes. A portfolio with a high rate of attrition isn't

worth much, but beware of portfolios with deceptively low attrition rates, he continues. An ISO with only 500 or 1,000 merchants could maintain startlingly low rates by handling every complaint personally—a level of service unsustainable at scale, he notes.

And other potential disappointments are lurking in the M&A market, Michaud cautions, and he offers the Heartland and Transfirst acquisitions as examples. "It's very shocking to see how much they went for," he says. That's not to say the companies weren't worth those prices, but the deals could raise false expectations among other potential sellers who are in different circumstances.

On the other hand, math alone can play a role in acquisitions. In a conversation Michaud compared to "Acquisition 101," he explains some ways the arithmetic can work. In one example, buyers can afford to pay a high multiple in a market that's growing. Just think of buying Google a few years ago, he urges.

A high multiple also makes sense if the synergies or economies of scale work out, Michaud says. In other words, one company can buy another and double its transaction volume while cutting back to just one backend operation where previously there had been two. "'Redundancies in the workforce' is the term they use," he notes.

Capturing market share also makes M&A activity attractive because it increases ROI for companies that have access to the cash to make the deals, Michaud continues. Suppose an acquisition costs $100 million and yields $10 million in annual earnings, he says. The return comes to 10 percent, an excellent showing in these days of low inflation and low interest rates.

Then suppose that in the same $100 million acquisition the synergy of the two combined companies enables a cost reduction of $5 million annually, Michaud says. "Well, now your return is 15 percent," he notes. "You can look at it that way." Or, the buyer can choose to view the cost reduction as an opportunity to quickly repay a loan taken out to finance the acquisition, he says.

So, if the return totals 10 or 15 percent, compare that to the 2 or 3 percent cost of the loan, and that's the spread, Michaud says. "It's just like a home mortgage," he maintains. "You just pay down your debt over time, and, all of a sudden, you have this great asset." The process is actually a little more complicated, but that's the basic structure, he says.

It all adds up to a busy payments industry M&A scene that could heat up even more if the government temporarily reduces or waives taxes on profits American companies have earned abroad, Luria says. If that occurs, companies seem less likely to invest abroad and more likely to buy back their own stock or use the newfound funds to acquire companies at home, he notes. The tax break could become yet another driver in the payment industry's booming mergers and acquisitions market. ***TT***

Ed McKinley is a contributing writer to Transaction Trends. *Reach him at edmckinley773@yahoo.com.*

Let *e*PN Be Your **EMV Expert!**

Your EMV Eco-System Made Affordable!

***e*Processing Network** has the secure payment solutions to help you stay current with the technologies that keep your merchants connected. And with real-time EMV capabilities, retailers can not only process contact and contactless payments, Apple Pay and Android Pay, they're able to manage their inventory as well as balance their books via QuickBooks Online.

***e*PN is EMV-Certified**

*e*Processing*Network*
the ***everywhere*** *Processing Network™*

1(800) 296-4810
***e*ProcessingNetwork.com**

© *e*Processing Network, LLC. All Rights Reserved. All trademarks are the property of their respective holders.

$$

The Perfect PLAN

Now is the time to decide how you'll sell your portfolio—even if you don't have one

By Ed McKinley

Start thinking about selling your merchant portfolio before you even have one. That's the advice of payments industry experts who make it their business to know the ins and outs of buying and selling the conglomerations of merchant transaction processing accounts known as portfolios.

"There are two paydays in the ISO business: the payday you get every month with residuals and the payday you get when you sell part or all of the portfolio," says Mark Dunn, who consults with ISOs and agents in his role as president of Field Guide Enterprises. "I urge people to look down the road and do some planning for that second payday."

Planning can influence the "multiple," a number that's used to determine the price of a portfolio. In one approach, buyers and sellers multiply monthly revenue times the multiple to find the value, sources say. These days, typical multiples worked out by diligently studying a particular portfolio range from 21 to 36, they add. Remember, too, that more portfolios fall below the range than above it, observers advise. Outside the typical range, some have seen multiples as low as 6 and as high as 40.

Experts offer other portfolio planning tips:

- Realize that not all assets are created equal. Some merchant portfolios simply have greater value than others; hence, they bring higher multiples when the time comes to divest, notes Todd Ablowitz, president of the Double Diamond Group consultancy, CEO of Infinicept, and publisher of Payment-Facilitator.com.
- Planning continues as fledgling agents choose an ISO. Similarly, ISOs start by enlisting agents for a sales staff and choosing a sponsoring bank or processor. The legal agreements those entities sign can profoundly influence the future value of a portfolio—and the ease of selling it, warns Christopher Hernandez, president and CEO of PortfolioBuyer.com, a brokerage that has represented dozens of portfolio sellers.
- Take care when choosing the merchants for a portfolio, too, observers agree. The types of merchants in the mix—based on what they sell and how much they transact—can play a leading role in how the portfolio is valued when it's time to sell, suggests Dean Caso, managing partner of Velocity Funding,

a company that buys and administrates merchant portfolios and now has about 7,500 merchant accounts.

- Don't forget to keep the numbers straight and the technology relevant. Paying strict attention to the metrics and employing technology that makes life easier for merchants can enhance the value of a portfolio, says Charles Hogan, CEO of Tranzlogic, a company that helps acquirers handle merchants' data in meaningful ways.

Planning can even determine years in advance who will belong to the group of prospective buyers for a portfolio, Dunn maintains. The group consists mainly of other ISOs that use the same sponsoring bank or processor as the seller, he says. That's because buyers tend not to move accounts from their original relationships. In other words, buyers who have portfolios tied to Vantiv, for example, usually buy additional accounts serviced by Vantiv, he says. It's often true for wholesale ISOs, which take on risk and underwriting responsibilities, and just about always true for retail ISOs—those whose businesses aren't based on as many financial commitments, he adds.

So, working with a large processor—such as First Data, the industry's largest—gives an ISO or agent a larger pool of prospective portfolio buyers, Dunn says. Having more potential buyers increases the chance that someone will bid up the price of the portfolio or that someone will simply be willing to pay a higher multiple, he notes.

Just about everyone who plans a business hopes for high volume, and acquiring's no exception. "The size of the portfolio matters a lot," Dunn says. "There is a positive correlation between a high number of merchants and high multiples." That's especially true when the buyer is acquiring the whole company, including buildings, computers, and relationships with the sales team, instead of buying what's called a static portfolio, which consists of just the merchant accounts and nothing else, he notes. "Larger, more dominant players are more attractive" because their past success can continue, he explains. "They can bring in merchants and keep them. They have a value formula that's working."

Exceptions do occur to the "bigger is better" rule for portfolio valuation. Take the hypothetical example of a portfolio consisting of 1,000 accounts—but they're all country clubs with golf courses, muses Dunn. That could represent an enticing opportunity for a buyer who's already heavily invested in that sector and thus ready to use his or her company's accumulated expertise more widely in that business. The point is that eclectic portfolios with unusual niches, high-value transactions, or high volume of transactions can break the rule of valuation rising with size.

The Art of the Sale

The static portfolios that come up for sale usually have only a small number of merchants, but the definition of "small" can vary greatly. For some, small means 600 merchants; for others, 6,000 would represent a small contingent, Dunn says. For an ISO with 130,000 merchants, 10,000 seems small, but an ISO with 300,000 merchants might consider 130,000 small, he maintains.

Usually, it's only individuals and small ISOs that sell static portfolios, but larger ISOs sometimes sell a portion of their accounts to raise funds for expansion, Dunn says. Heartland Payment Systems, for example, sold off some merchant accounts to get access to capital in its early years, he says.

In fact, Caso views Velocity Funding's purchases of merchant accounts as providing financing to ISOs and agents, which explains the word "funding" in the company's name. Most of the sellers who approach his company to divest a portion of a portfolio are seeking an infusion of capital to grow the business, he says. Bankers often don't understand the acquiring business well enough to feel comfortable loaning funds against transactions, he says.

Hernandez has had a different experience, with most of his sellers ready to sell their entire portfolios. But that's changing. More of his sellers are now looking to raise capital and stay in the business. Meanwhile, more buyers are expressing an interest in keeping sellers engaged and may pay a higher multiple with the caveat the seller obtain a certain number of additional accounts. Keeping the seller engaged with the portfolio lowers attrition because "there's that familiar face" involved, he notes.

At the same time, technology continues to provide a guiding force in portfolio sales. Velocity Funding, for example, has developed a software program to evaluate portfolios, says Caso. The program analyzes various metrics and scores each of them. Totaling the scores yields the pricing, he notes.

The biggest risk Velocity Funding faces in purchasing portions of portfolios comes in the form of what's called "solicitation," which occurs when ISOs or agents try to lure back the accounts they've sold, Caso says. His company tries to protect against that through carefully worded contracts.

When ISOs or agents specialize in one or a few niche businesses, they make their portfolios more attractive to buyers who understand selling to those markets, says Dunn. The downside to specialization arrives when a niche falls upon hard times, which can happen even when the economy in general remains healthy, he notes. Certain bricks-and-mortar stores, for example, are hurting now as e-commerce becomes ascendant.

"Concentration" means a lot to the value of a portfolio, Caso notes. "Let's say we have a portfolio with 100 merchants in it, and it's generating $10,000 in monthly residuals," he says. "What we would prefer to see is that each account be $100. If $7,500 of that $10,000 is in five accounts [and], for whatever reason, those accounts leave, that significantly reduces our return." In other words, a portfolio with a few big accounts and lots of smaller ones isn't worth a high multiple because losing one or more big accounts would sharply curtail residual income.

Product mix also affects portfolio value. Caso explains that refers not only to types of businesses included—retail, mail order, mail order/telephone order, or online—but also industry type—restaurants, medical, brick-and-mortar retail. "We've had really good luck with the medical industry," he notes. "They have lower attrition than a brick-and-mortar presence. They just don't switch merchant services providers as often." It's easier for an agent to walk into a pizza parlor and find the owner than to get access to a doctor or chiropractor, he notes.

Attrition rate seems like an obvious factor in valuing portfolios. The rate's decreasing slightly these days but remains high, Caso says. Valuations have gone up a little as attrition has gone down, but not significantly, he continues. And as for multiples, Hernandez says he's hasn't seen much change.

Buyers and sellers should consider the profitability of accounts in a portfolio, too, Dunn says. Sometimes ISOs lower their prices enough to clinch deals that they "have completed the race to the bottom," and wound up with a lower-valued portfolio, he notes. However, Velocity Funding likes to buy portfolios with low margins because they have lower attrition, Caso says. It's difficult for an agent to persuade a merchant to jump ship when prices are already low, he adds.

Caso also tries to determine how honest sellers have been with their merchants. That's difficult to pin down, but honesty can reduce attrition and thus add value to the portfolio, he maintains.

Backing the processing function with the right technology increases the value of the portfolio, Hogan says. Tech that can help merchants with scheduling, accounting, inventory, and other tasks can create client loyalty, reduce attrition, and boost the value of a portfolio, he maintains. The same holds true for technology that enhances the buying experience for consumers, he notes.

The number of agents who have a claim on residuals can complicate the process of placing a value on a portfolio, Dunn notes. Some agreements grant the agents a payday with the same multiple that the portfolio earned, he says. The seller of the portfolio pays the agents so that they don't have an ongoing claim against the buyer. However, because more agents are choosing to receive upfront payments, the number that receives residuals may be declining slightly, Dunn says. Receiving a bonus at the outset becomes attractive when there's a lot of merchant attrition in the market. But ISOs often reserve the right to claw back upfront payments if merchants defect to another processor soon after signing up.

Negotiation Nuances

Whatever choices ISOs and agents make consciously about residuals, they may find when a portfolio's sold that they unconsciously committed themselves to unfavorable terms when they signed agreements. Dunn tells the story of an agent who sold transaction processing for five years before finding out that his agreement allowed him to sell his accounts only to a buyer specified by the ISO. That clause decreased the value of the agent's portfolio by nearly 40 percent, Dunn estimates.

When ISOs are pondering the wording of their agreements with agents, ISOs should bear in mind that nothing lasts forever and plan for the eventuality that the relationship will end, Dunn says. It's also crucial for ISOs to attempt to control what information and image agents are presenting to the public on their behalf, and they may use the agreement to accomplish that, he notes.

No matter what particulars arise, the negotiations for a

portfolio become complex enough that most buyers and many sellers seek outside help, Dunn says. Attorneys who specialize in payments can ensure terms are legal and equitable, while third-party brokers or consultants can help negotiate. Some experts can fill both roles, he says. Hernandez, for example, maintains a group of vetted potential buyers to match with the sellers he represents as he works to attain the highest possible multiple. He also says large ISOs have acquisitions departments that handle portfolio purchases.

Processors sometimes can enter the negotiation, Hernandez adds. Sellers often seem unprepared for the pushback processors can bring to bear when a portfolio's being sold, he says. A deal might take a couple of weeks if only the buyer and seller are involved, but the processor can stretch that to months simply by being slow to respond when called upon to take action, such as handling paperwork, he says. "There's really no incentive for the processor to do all of this legwork," he notes. He cites one horror story where a buyer and seller have been waiting five months for a processor to sign a piece of paper.

That tendency to lag becomes less likely if the buyer has an important relationship with the processor, Hernandez observes. Processors can hurt themselves by stalling, he predicts, because word will spread and drive away potential partners.

Sellers sometimes fail to realize the processor may have a contractual right of first refusal to the portfolio, says Hernandez. In his experience, processors seldom choose to make the purchase, but dealing with the possibility slows the process.

Other roadblocks that can slow the sale include monthly minimums imposed by the processor or encumbrances resulting from loans against the residuals that would have to be paid before the sale is complete, Hernandez says. "These are rare, but they do exist," he notes.

To make matters worse, some "buyers" make offers they don't have the funds to back up, Hernandez notes. That can keep a portfolio off the market while the buyer tries to raise the money, he says. That's why he keeps in contact with an inner circle of buyers who have made deals with him and have thus demonstrated the ability to pay or have shown other proof of financing.

Meanwhile, sellers should feel comfortable that prospective buyers will service the accounts in a reasonable way, because poor service could besmirch the seller's reputation among clients, Caso says. "They don't want that new company to mess it up for them," he notes.

Likewise, "buyers are looking for partners," Hernandez says. "Look for the long-term benefits. Don't just sell for the highest multiple." That's especially important, he says, because the usual terms of an earn-out agreement call for the buyer to pay 70 or 80 percent upfront at closing and then make subsequent payments at 12 and 24 months, to account for possible attrition. It makes for a long relationship, "so make sure you like 'em," he advises. There may also be a 10 or 20 percent attrition guarantee, meaning that the seller may have to sell additional accounts to maintain the portfolio.

The complications of buying and selling portfolios are many, but industry observers agree that planning can ease the process if it begins before there's even a portfolio to sell. ***TT***

Ed McKinley is a contributing writer to Transaction Trends. *Reach him at edmckinley773@yahoo.com.*

MEDICAL PAYMENT STRATEGIES
MPS

The future of medical payments is here.

- All Electronic Platform for immediate patient to provider payments.
- Patient payments using a modern gateway (HIPPA and PCI compliant).
- Significantly improves cash flow.
- Reduce or eliminate 3rd party collections.

For information on becoming a Market Partner, please contact: Bill Blakey 844-308-2598 or 561-250-6454 | email: b.blakey@medicalpaymentstrategies.com

TRANSACT Trends

PHOTO BY JERRY FRISHMAN

Industry experts weigh in on need-to-know trends at the only event focused on the business of payments

The payments business is changing the world we live in, and the difference is quantifiable. Just ask Craig Vosburg, president of North American markets at Mastercard, who delivered the opening keynote address at this year's TRANSACT event. In the United States alone, the payments industry has driven $430 billion in gross domestic product growth and has created 6 million permanent jobs in the past decade, he explained to the more than 4,000 payments professionals who attended the conference.

But the payments market also is changing commerce in less tangible ways as it transforms into a technology-based industry. For example, cloud computing has helped democratize payments services, as Diane Green, senior VP of Google Cloud, pointed out in her address. "We can make your applications, your data, available on demand…even the smallest merchant can handle payments of any scale," she explained.

As consumer expectations are evolving along with the explosion of new technology, trust in commerce remains critical. Safety, ease of use, and ubiquity are fundamental criteria for any payments solution to take hold, according to Vosburg. "We can all think of payments products, payments ideas… that do not meet those criteria—they are not safe, they're too complicated, or they're niche solutions—and invariably those concepts fail," he said.

The challenge in deploying innovations with those key underpinnings is doing so in a way that is simple for consumers and merchants alike. So, *Transaction Trends* spoke to experts from

various facets of the payments field at TRANSACT to see which aspects of frictionless commerce their businesses are focusing on and the implications for payments professionals. They identified the following five trends as top of mind for the next three to five years:

Internet of Things

Dan Loomis, director of payments product management, Intuit Small Business Group

The payments world has been buzzing about how IoT will affect consumer-based payments, but Loomis also sees big things coming from IoT in small business and commercial verticals such as health care, hospitality, and transportation. "I think it's still early days yet, for us," he said. "A lot of us have Google Home or Alexa in our household or a Nest product. But when we walk into a retailer [or into] a commercial enterprise, the IoT hasn't really touched our lives quite yet."

The prospect for payments professionals lies beyond the actual payment and in the possibility for value-added services that offer a "microbenefit," Loomis argued, also noting an "incredible opportunity" for the payments community to facilitate "a strong authenticated, low-risk payment event" via connected devices.

Intuit currently reaches about 5 million of the 800 million small businesses worldwide, and the proliferation of IoT allows the company and its developer network to pull data that paints a more holistic picture of how customers are managing their entire businesses—not just the accounting function. "Today, we support an API payments product that is publically available, where we empower our developer ecosystem to take a payment," Loomis said. "…That's where Quickbooks and the value around that product helps to add a little bit more juice to the developer ecosystem. We take the payment, we make sure that the services on top of that payment are really well managed, and our developers—some of them may be developing IoT products—can offer true value to their end customers."

Video: TRANSACT On the Go

Watch these experts explain the short-term trends that will have a profound effect on the payments world from TRANSACT, and see more tech innovations and demos from the show floor. Visit *Transaction Trends* online at www.electran.org/publication/transactiontrends and the ETA YouTube channel at www.youtube.com/user/ElectTranAssoc.

Omnichannel

Amy Parsons, SVP and head of global commerce, Discover

"Coming from the payments business, one of the things that we have a tendency to do is think about payments first, when in actuality, life really exists because we're all going to buy something," said Parsons. "We know where we like to buy things, we know what we like to buy, and then payment obviously becomes attached to that."

An integrated omnichannel experience means providing a truly customer-centric experience—communicating with and engaging the customer exactly how, when, and on what topics they want and then taking that "downstream" to the payment process. This starts in a retailer's media presence and messaging and continues with its back-end technology and infrastructure, she said.

And while the digital age is allowing for an untethered shopping experience that's not dictated by physical location or operating hours, it also comes with inherent risks that the payments community must figure out. "So now that you can

AMY PARSONS

do anything, the question is should you, and what safeguards do you want to put around that?" Parsons added. Risk-mitigation practices including authentication and device security will become "very critical for the future" of these new integrated experiences, she predicted.

For its part, Discover is focusing on omnichannel in a number of ways. On the payments side, Discover is emphasizing partnerships and access to technology that's inherent to running secure payments. The card side is honing its customer service practices to ensure the brand is engaging with customers on their terms. "As we look at ways that customers want to interact with us, it's no longer necessarily that high-touch, 'Let me pick up the phone and call you,'" Parsons explained. "Sometimes it's those quick transactions on my mobile device. Sometimes it's just a text."

Contactless

Jeff Sloan, CEO, Global Payments, and president, ETA

Looking at payments from a global perspective, Sloan cited a healthy consumer economy and technological innovations as driving forces for growth among 'the Pays'—Apple Pay, Android Pay, etc. "An interesting variant of that is contactless cards," he said. "[It] really hasn't taken hold here in the United States, and instead you see very high rates of penetration and growth of contactless in the U.K. and in Europe. …There's a lot of conversation in the industry about the next leg of growth here in the United States, especially for small ticket items like transport, to come from contactless cards.

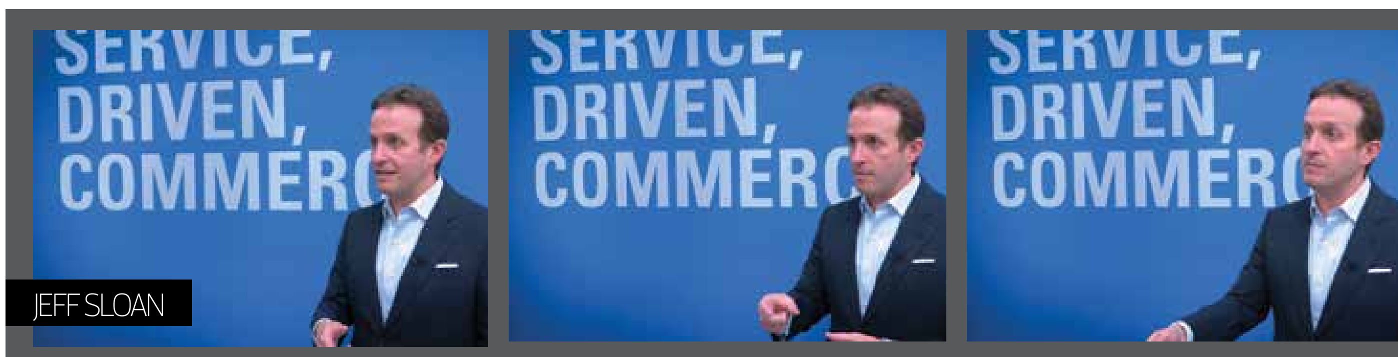
"I think we're right at the intersection of the trends of consumer health and technology, which I think will portend very well to the things that we need to do in terms of contactless payment," Sloan added. For payments professionals, this translates into more high-value products and services to sell to merchants. "Our business constantly reinvents itself and if you asked me 10 years ago, I never would have imagined many of the things that we're selling today. It's hard to believe this, but thinking 10 years ahead, I'm not sure I could even really imagine what we'll be selling—except I know that we'll be selling more things, they'll be cheaper, and we'll be doing it more efficiently, and that really is the common nexus of all our markets," he said.

Global has made "very substantial investments" in international, e-commerce, and omnichannel solutions to prepare for the contactless trend, according to Sloan. The company also is expanding heavily into new vertical markets. For example, its acquisition of Heartland Payments Systems last year has given Global access to brand new markets, including primary and secondary education systems and universities.

Chinese Consumers

Souheil Badran, president, Alipay North America

With more than 4 million Chinese consumers coming to the United States each year, American retailers need to be planning to accommodate their shopping habits and payment preferences, said Badran. "Traditionally, they're looking for beauty supplies, physical goods, things that may be cheaper here than in China, things that are authenticated here that they may not have access to in China as well," he said. "So when we think about retailers in the United States and catering to those



JEFF SLOAN

consumers, it's really the ability for them to accept payments in a way that they're familiar with, that they're comfortable with"—such as Alipay, which is accepted by more than 450 million users and 2 million merchants worldwide.

How can payments professionals work with their merchant customers to drive traffic to stores? Through POS engagement, said Badran. Specifically, he described Alipay as "a lifestyle application where you're doing more than just paying; you're buying insurance, you're extending credit, and everything is happening in a seamless environment. So as a merchant and as a payment professional, knowing what [consumers are] coming in to pay you with just creates more opportunities for you to give them better offers and allow them to shop at your location."

At TRANSACT, First Data announced a new partnership to implement Alipay at the POS. Merchants using First Data's Clover suite of solutions will have first access, with eventual rollout to all of First Data's U.S.-based merchant clients, according to a press statement.

Convergence

Vin D'Agostino, EVP and chief strategy officer, Verifone

The convergence of payments and commerce is happening online and offline, said D'Agostino, and presents new opportunities for payments professionals.

"I think it's a great implication for payments professionals because it's no longer about the pie being just payments; the pie is commerce, right?" he said. "It is really thinking much differently about the kinds of software and solutions one has to bring together. It's not just enough to process a transaction type. Now, it's really about the data ecosystem, the management information system that goes around it, and making it all actionable."

Consumers like the online shopping experience because it is so highly personalized, D'Agostino explained. The physical store can have the same kind of highly satisfying and engaging experience—provided the right technology is in place to interact with the customer in a way that "feels comfortable and natural and not in a way that feels forced," he said. Verifone is addressing that in its latest iteration of devices. Its Carbon line has "a smaller footprint" so that merchants can "go where the action of commerce really is—in the aisles of their stores, right with their customers, not behind a counter," said D'Agostino. ***TT***

Learn more about the evolving payments market and the trends that will be affecting your business. Log in and listen to educational sessions from TRANSACT. Visit www.eventscribe.com/2017/Transact for more details and access.

Modernizing the POS

How to help merchants upgrade their payment systems

By Alan Finlay

The payments industry is changing rapidly. Every day there's a new thing—a device, a software solution, or a whole new platform—that could very well turn your business model upside down. As a merchant service provider (MSP)—whether you're with an ISO, an independent software vendor (ISV), a value added reseller (VAR), a payment facilitator, or all of the above—your job is to help your merchants accept electronic payments. They expect you to know everything there is to know about our vast, complex industry and help them figure out whether the latest technology on the market is right for their business. The majority of merchants have limited knowledge of their POS system, how it integrates with their business software, or what they need to do to comply with industry best practices and government regulations. They expect it to just work.

As an MSP, you can be an invaluable resource, helping your merchant customers navigate the tangle of compliance requirements and minimizing the time they have to spend thinking about their payments infrastructure. When it comes time to upgrade, you can truly differentiate your services by walking them through the entire process. To help guide you and your customers through this process, ETA, in cooperation with Boomtown and Discover, put together a guide to modernizing merchant POS systems. Here's how to get started.

Initial Review

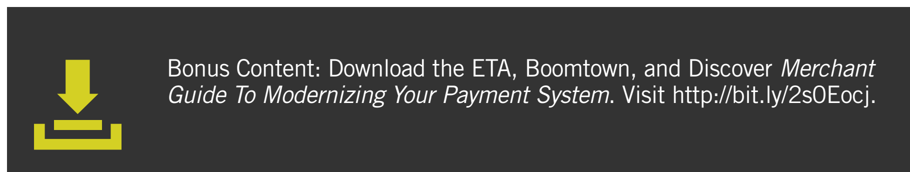
If you haven't audited your merchant's payment infrastructure in a while, take this opportunity to conduct a thorough review. Record all the hardware and software used to process payments, including information about the network powering their internet connection. Think about all of the vendors involved—terminal manufacturer(s), acquiring bank, payment processor, POS provider, gateway or middleware providers, technical support, card brands, and internet providers all play a role in helping your merchant accept payments. Each component interacts with—or in some cases, integrates into—your merchant's payment infrastructure, and changing one piece in the system may have unintended ramifications.

After taking inventory, sit down with your merchant customer to determine their upgrade goals. Is their system EMV compliant? Are they happy with their current set-up, or do they want more functionality? For instance, do they want to accept contactless payments, including NFC mobile wallets? What about chip-and-PIN EMV cards? And, perhaps most importantly, are they willing to pay a premium for better, more secure POS software and hardware? A sophisticated, cloud-based POS system could provide:

- inventory tracking
- item discounts
- automated marketing solutions
- integrated accounting software
- barcode scanning
- dynamic table service and bill splitting
- loyalty programs
- sales analytics
- mobile table-side ordering.

It may be helpful for your merchant to prioritize the functions/services they want their POS to offer—as added functionality will drive up the price. For instance, they may decide that barcode scanning is a deal breaker, while they don't care as much about

loyalty programs or sales analytics. You are in the best position to advise your merchant clients about the options available to them.



Security Considerations

As your merchant is building their "wishlist," you can advise them on improving their POS security. If they process card-present transactions, they'll need to accept EMV chip cards in order to avoid liability for counterfeit card fraud. Their EMV-compliant terminal may need to be certified by their processor, which will take additional time. EMV is only one piece of the security puzzle. PCI Data Security Standards require merchants to encrypt any card data that is stored or transmitted through their systems. A list of PCI point-to-point encryption (P2PE) solutions is available on the PCI website. Tokenization adds another layer of security by replacing the primary account number with a token. Even if a criminal manages to intercept the card data, the token will be unintelligible to them. When used together, EMV, P2PE, tokenization, and PCI compliance may reduce fraud and enhance the security of your merchant's payments infrastructure.

Taking into account your merchant customer's upgrade goals and their particular security concerns, you can recommend one of the following upgrade options:

- **Stand-alone solution.** This is the most basic set-up. If your merchant only wants to be able to accept chip cards and nothing else, this is the easiest, cheapest, and fastest option. Just swap out their nonEMV terminal(s) for an EMV-enabled POS terminal. Keep in mind that this option offers the least amount of functionality. However, it's worth noting that even with a stand-alone solution, you can still accept contactless payments if you select the right hardware.
- **Semi-integrated solution.** This is the most common set-up for many businesses. A semi-integrated solution is one in which a payment terminal is used to capture card transaction data and process payments, but it is connected to a POS application (often residing on a PC or register) rather than being a stand-alone device. This approach is generally straightforward because the EMV processor certification and integration to the POS are often completed by the terminal provider and software application provider.
- **Fully-integrated solution.** The fully-integrated approach is the most complex integration and not as common for small businesses. If your merchant processes millions of transactions per day and wants to reduce payment gateway fees, or if their business model has very specific needs, then a fully-integrated solution may be right for them.

Once your merchant has made their choice, you can provide guidance on installation. If they are moving from wired to wireless POS, you can advise them on minimizing unauthorized access to their network. Encourage your merchant customer to use WPA2/PSK encryption (at a minimum), install a firewall (with a password), update their router firmware if it's been more than a year since they last updated, disable SSID (so people cannot see their wireless signal), and ensure they are following all PCI requirements related to wireless connectivity.

Finally, you can help your merchant train their sales personnel to use the new system. This is also a good opportunity for a refresher on recognizing potentially fraudulent behavior. ***TT***

Alan Finlay is vice president of marketing and customer success at Boomtown.

ADVERTISERS INDEX

Company	Page	Phone	Web
Authorize.Net	back cover	425-586-6000	www.authorize.net
eProcessing Network LLC	17	800-296-4810	www.eprocessingnetwork.com
iPayments	inside front cover	617-681-6422	www.ipayment.com
Medical Payment Strategies	21	561-250-6454	www.medicalpaymentstrategies.com
USA ePay	9	866-812-3729	wwwusaepay.com

Bob Leonard

Bob Leonard is founder and chief executive officer of iMobile3, the third software company he has built over the past 30 years. iMobile3 recently won the overall prize in the ETA/PayPal Technology Innovation Showcase awards at TRANSACT. Here, Leonard talks to *Transaction Trends* about his company's digital marketplace and POS platform, offers advice to other fintech companies, and more.

Describe iMobile3's products/services and where you got the idea for development.

iMobile3 develops white label POS and digital marketing solutions for payment providers and merchant acquirers. You will not see the iMobile3 brand anywhere in the market because we embrace our role as a true behind-the-scenes solutions provider for our partners.

Our marketplace is an app store of business solutions that can be made available to merchants through the payment provider's merchant portal. We got the idea for development of our marketplace after years of experience working with payment providers in the industry. We saw a tremendous need for these providers to be able to offer a branded, single sign-on portal to their merchants that not only expands their offering with tools like social media and other digital marketing functionality, but also consolidates all of their product offerings under one roof. By giving their merchants a consistent, branded experience from just one portal, payment providers will solve their two most pressing challenges: increasing merchant engagement and ultimately reducing merchant attrition.

What's been the biggest challenge since launch?

The biggest challenge has been getting merchants initially engaged with the marketplace. Merchants are extremely busy and have limited time to check mailboxes, email, answer the phone, etc. It will always be a challenge to quickly demonstrate the value of the marketplace—or any software solution for that matter—to merchants and get them to create an account and log in to the product.

How did you solve that challenge?

We solved the engagement challenge by implementing a robust communication strategy. We developed a number of continuous email marketing campaigns to consistently inform merchants about this new marketplace and explain the value.

We also developed a merchant-facing application that the merchant will be able to download on a mobile device. Once downloaded, the app can send the merchant important push notifications about its business such as charge backs, daily funding events, negative review notifications, and more, to help drive the merchant into the portal. Once this mobile application is integrated into the customer service/help desk of an organization, we see merchant engagement at a whole new level.

What business advice do you have for new startups in fintech?

Never forget about the user experience. As software developers, we can often get lost in loading up our products with new complex features and making them more and more robust. However, we must never forget about the end-users who will be accessing these tools.

Merchants have very limited free time and want their answers and solutions as fast and as simple as possible. That is why we always put our solutions in front of small business owners and employees before hitting the market to ensure they have a seamless user experience with the product and can easily navigate it. Always have the end-user in mind when developing a piece of software.

How will iMobile3 be using t he Tech Innovation Showcase Award prize money?

We will be using the award to reinvest in our software. We have been traveling the country getting feedback from both current and potential partners about what their biggest needs are and what else they would like to see from a solution like our marketplace.

We value this feedback and use it to drive our development cycle. The prize money will go to further enhancing our product and to implement features that our partners need to continue to increase their merchant engagement and reduce attrition. ***TT***

ACCELERATE BUSINESS | AMPLIFY VOICES | EXPAND KNOWLEDGE

YOUR ETA: NOW

Cayan now has a 75,000-customer base with the help of ETA.

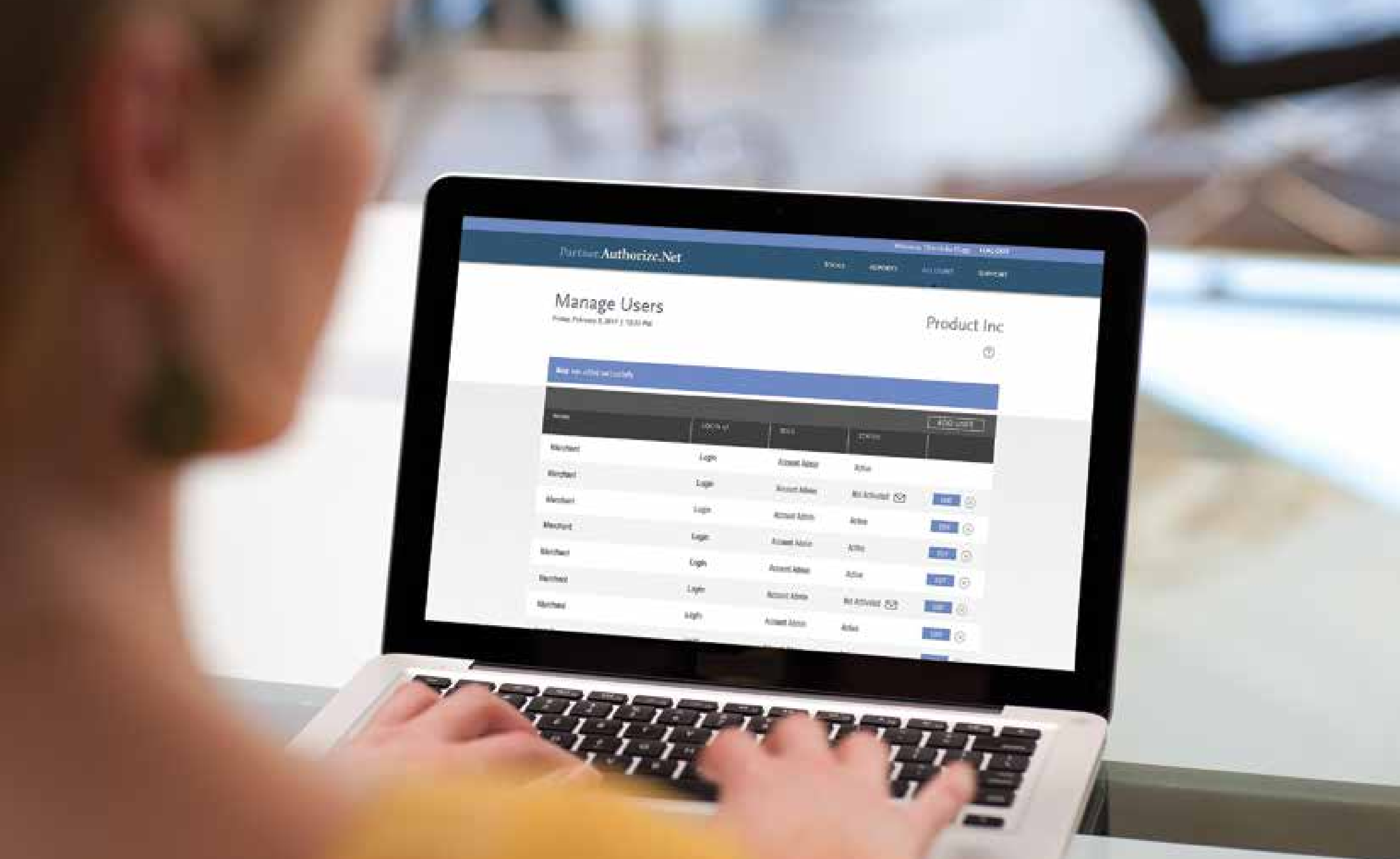
ETA has helped us build our business over the past 15 years. From the business relationships and the advice we get from other members year-round, we've learned the inner workings of the industry and have seen the future. There really is no other resource for our industry like ETA.

Henry Helgeson, CEO and Co-Founder, Cayan

ELECTRONIC TRANSACTIONS ASSOCIATION
Advancing Payments Technology

ELECTRAN.ORG

Experience the value of ETA Membership and arrive at a greater level of success. Join today.



Improved Ways to Manage your Portfolio

If you like saving time, you're going to like our new Partner Interface.

- Improved user administration
- New pricing management
- Simpler merchant boarding

Check it out at **https://partner.authorize.net**

Authorize.Net®

©2017, Authorize.Net. All Rights Reserved.