

COVER STORY

By Tom Wright



Specialty Shop or General Store?

Some ISOs see opportunity in catering to niche markets

In years past, Independent Sales Organizations (ISO) and merchant level salespeople (MLS) presented themselves as one-stop shops for processing and boasted about a wide list of clients across many industries. Many ISOs, particularly very small shops, still use this as their core business model. Yet, industry observers note that many offices are seeing the advantage of positioning themselves as specialty boutiques by catering to merchants in specific industry segments. These ISOs present themselves as processors that know an industry inside and out and, as a result, anticipate problems and create solutions unique to that industry.

While some analysts predict that we will see more ISOs and processors marketing themselves as experts in narrowly defined vertical markets rather than as generalists, there are still many in the industry who are not convinced that this is the right business strategy. Neil L. Randel, president and CEO of First American Payment Systems in Fort Worth, Texas, states that, "Whenever you specialize in a certain industry segment, you immediately limit your universe. Larger ISOs need to spread their merchant base over a wide geographic area so that a regional economic downturn does not affect them too seriously." Randel goes on to compare an ISO's merchant base to a

personal investment strategy: Most financial advisors recommend investing in a wide range of industries as a risk-avoidance mechanism. He adds that, "We don't like to see portfolios that are concentrated in a handful of SIC codes."

Harold Montgomery, CEO of Calpian, an ISO finance company headquartered in Dallas, Texas, agrees with Randel. "There is an inherent scale problem with ISOs that focus on niche areas. I don't believe that it is

Critics of the generalist approach may argue that generalist ISOs are not adding any value and are simply selling on low cost, but Montgomery contends that, "Even niche ISOs have competition and are subject to pricing pressures." While admitting that it is a very challenging market, he says that, "If the ISO has a cost-effective sales and service team and keeps their overhead low, they can offer merchants very competitive pricing and still make money. The generalist approach done well and prop-

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necessary to be a specialist." His experience tells him that it is simply a scale issue. "The 1,000- to 20,000-merchant ISO is not a viable size in today's market. They must have a plan to get to the 100,000 or so merchant level, and the only way to achieve this type of scale is to remain a generalist." He notes that, "With margins falling about 10 percent per year, many ISOs will have to double or triple their merchant base in order to stay even or increase their profits."

erly monitored can be successful." Randel adds, "This is not a get-rich-quick business. The same principles apply in the industry today as they did 30 years ago when I started. You have to knock on doors, telemarket, network with a wide range of businesses and associations, ask for referrals from your existing clients, and generally work hard to be successful." He is sure that, "This is not a commodity business, and price isn't everything—merchants change processors every day due to bad service."

Portrait of a Generalist

Jim Shelby is president, CEO, and head of sales, marketing and public relations for First Service Bank Card in the Upper Peninsula of Michigan. In other words, he is a one-man ISO. Shelby sold his small business a decade ago and thought that credit card processing would be a good business to delve into. He admits that, "I will take any business I can get except high-risk and troublesome things like adult entertainment or casinos. With only 500,000 people spread across a large geographic area, I have no choice but to be a generalist." His 350 merchants run the gamut of industries: jewelry stores, motels, snowmobile rentals, auto repair and body shops, restaurants and cell phone stores. He even has a few colleges and credit union clients. He does have somewhat of a specialty niche with a few of the smaller credit unions in the Upper Peninsula by helping them implement cash-advance programs for tourists that come into the area and may need some extra cash.

Shelby is such a generalist that he even has a handful of MOTO (mail order/telephone order) and Internet clients but admits that, "It can be hard to remember how to set up and support all of the virtual and POS terminals that I have installed over the past 10 years." He attributes his success to keeping things simple for merchants and a strong commitment to customer service. "I don't believe in locking my customers in with long term or complicated contracts. I don't charge any application fees, annual fees, charge-back fees, statement fees, termination fees—there are no hidden fees at all." As far as interchange goes, he takes the time to thoroughly explain the basic three rates of qualified, mid-qualified and non-qualified with all of his clients.

From a customer-service perspective, Shelby goes out of his way to assist with terminal problems. "I replace defective terminals as quickly as possible and try to save my clients money on repairs and refurbished units if possible," says Shelby. Over the years he has become

an expert on terminal and printer problems and can talk many merchants through issues over the phone. In terms of pricing, he confirms, "There is lots of competition, even way up here in the Upper Peninsula. There is always somebody cheaper, whether it is on the Internet or from the traveling salesmen that seem to come up here every summer from Detroit making the rounds knocking on doors." Yet, his commitment to personalized service and helping his clients with terminal troubles, batch problems, statement questions and fee issues resonates with his installed merchant base. "I occasionally lose customers to lower-cost providers, but I often get them back later when they realize how poor their service is when they have questions or problems."

The Specialist Camp

Paul Martaus, president of Martaus & Associates in Mountain Home, Ark., has been around the credit card processing business for decades and recognizes the hard work that generalists like Shelby put in to earn a living. "The 'trunk slammers' have to be generalists to survive and the better ones can really make a good living. At the other end of the scale are the 'hyper-ISOs' that also are generalists with a broad spectrum of industries." When asked when is the right time for smaller shops to start specializing, he says "Whenever the owner stops selling and is spending all of their time managing a sales team." He points out that even though most small ISOs start out taking whatever business comes their way in order to pay the bills and put food on their tables, that "there are a few ISOs that are formed by industry experts who can specialize right out of the gate. They totally understand that vertical's business needs and terminology and can perfectly tailor their solutions for that industry."

Over at eCommLink in Las Vegas, President T. Jack Williams has some strong opinions on the generalist versus specialist argument and they can be summed up thusly: "You can't be

everything to everybody." He says that, "Merchants have unique needs and it is virtually impossible to train salespeople to be knowledgeable about many different merchant categories." His experience shows that there are different buying patterns and questions that need to be answered and that specialization allows salespeople to be well prepared and articulate. He is a big fan of product specialization. "The future is in specialization and supplying unique products to each industry. ISOs need to consider a whole new world of products and services such as prepaid, wireless phone top-ups, ACH, biometrics, and more." While he urges ISOs to find areas of specialization that will allow them to differentiate themselves, he does caution that, "Keeping merchants happy depends on a combination of product, relationship and price. ISOs tend to forget that many merchants see credit and debit card processing as just a necessary evil and are not looking to change processors. However, the Holy Grail for many businesses is finding ways to obtain incremental business, and if an ISO can find ways to help merchants make money instead of saving money, they will be more successful."

Knowledge Is Business

Like Williams, Greg Cohen, president of Moneris Solutions USA, believes that deep product and industry knowledge helps drive business. "To create value, you must have solutions geared towards certain vertical markets," says Cohen. When salespeople have insider experience, they will be up to speed on the latest regulations and trends affecting their markets and they will be experts on interchange and how to save money for their clients. According to Cohen, "the best salespeople truly know their business. It is too much to ask of a salesperson to sell to too many different types of merchants. I call it 'showing the path to greatness' when an ISO provides excellent training on products for certain industries." He advocates partnering with a value-added reseller and

becoming a driving force in a certain market. If confronted by geographic limitations, Cohen suggests, “Go into ‘like’ markets.” For example, if an ISO is selling into the automotive market, it could expand into motorcycles, RVs, boats, snowmobiles, etc. He admits that at some point the ISO may have to expand its geographic boundaries, or it could try selling more products to their existing customers within the same region. He concludes that “free terminal offers and the ability to shop online for merchant services are killing the generalists. There is just too much competition to simply offer credit and debit card processing—you have to find ways to deliver a total package solution.”

Another proponent of specialization is Ellen Hudec, executive vice president of Sales and Marketing at Sterling Payment Systems in Tampa, who advises that, “You can’t take a shotgun approach in today’s market. You have to be a specialist.” In her view, the traditional focus on terminal sales and basic card processing is hopelessly outdated, and the future is in PC-based systems. She recommends that ISOs take a long-term view and focus on value and technology. “It is critical for ISOs to understand interchange, financial reporting, PCI compliance and IP technology and how these affect their clients,” says Hudec. She compares it to Wal-Mart versus Neiman Marcus: the former is price driven and the latter is custom-solution oriented. “If ISOs take a long-term strategic approach as specialists, they will develop better portfolios and they will experience less merchant attrition.” Hudec acknowledges that there are risks in specialization but that they can be offset “by finding the right partner for that industry—one that features a good combination of setup costs, hardware, software and support. In my opinion, the decision to become more specialized (or not) has already passed. Successful ISOs today already are using technology and value-added services to win merchant accounts of all sizes.”

Michael Higgins, President of Direct Sales for TRANSFIRST in Dallas, Texas, also thinks that ISOs must

have a long-term perspective and become more specialized. He says that “the generalists can gain some short-term revenue and their investment is less, but if the ISO is willing to make the long-term commitment to more specialized industries then they will enjoy better margins and retention rates.” Like Cohen, he prefers the consultative approach to merchant sales and stresses the importance of staying current with industry trends. “The market has changed, and mer-

Badia’s definition of a specialist is somewhat broader than most people’s definition. “An ISO that just goes after any kind of smaller retail business is a specialist. There is a real blurring of the lines in my mind between a generalist and a specialist.” He echoes Randel’s comments on a successful strategy: It must include hard work, networking, capital and some luck. While he cautions that there is too much risk in having just a handful of big accounts that constitute a large portion of your

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chants are savvier now and are tired of seeing a MLS every week pitching free terminals. To keep merchants on board, ISOs need to sell them more products such as ACH, payroll, cards, gift/loyalty cards, e-checks and BOC (back office conversion).” Additionally, he suggests partnering with financial institutions and associations. Charlie Creamer, past president of the ETA and president of the Midwest Transaction Group, has taken Higgins’ advice to heart with his firm. “Our business plan has always been to strike strategic partnerships with associations.” He emphasizes, “While the ramp-up time is longer with associations, you gain a lot of credibility and you are not just one of everybody else out there banging on doors.”

Working with associations has its obvious benefits, but Tom Della Badia, senior vice president at Westbury, N.Y.-based IRN Payment Systems, comments on the downside. “There is a lot to the association angle—trade shows, newsletters, snail mail campaigns and telemarketing. You will need the capital to conduct these marketing campaigns and the patience to see them through to fruition.” Della

portfolio, he says that “there is no ‘right or wrong’ way, and each ISO has a different business model.”

You can count Clinton Baller, president of Avid Payment Solutions, in the same “whatever works for your ISO” camp as Della Badia. He likes the concept outlined by Martaus: Build a strong foundation as a generalist and then slowly specialize as you find success in certain vertical markets or with certain specific products. His firm has found success using telesales to uncover a merchant’s interest level in certain products (pre-paid, e-check, gift cards, etc.) and then sending an MLS to lead with that product pitch. In terms of pricing, Baller is adamant that “we can compete on price because so many others have hidden pricing. We are price competitive and tell our customers exactly what their costs will be.” Baller concludes that “we started out as generalists and now we have a few specialized representatives for retail and Internet. Like most ISOs, I just want my sales team to sign good merchants and bring in the results.” **TT**

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