Bundle Up

Sell total solutions at the lowest cost and still make a profit

By Brian Todd

Making sense of the cluttered electronic transaction landscape is the job facing independent sales organizations (ISOs) today.

That clutter, says Aaron Bills, chief operating officer of Chantilly, Va.-based 3Delta Systems Inc., can be tracked to changing factors that affect interchange rates, which have multiplied as payment choices have grown.

"There used to be five or six categories of interchange," Bills says. "But now you could fill a book with all the interchange rates available."

The number of card types has grown dramatically. Cards are created to meet specialized needs or respond to marketing needs. Examples include consumer rewards-card categories, and corporate cards used with travel cards, purchase cards (p-cards) and business cards.

Interchange has been affected as the number of ways a card can be processed has increased. What used to be almost exclusively a card-present environment evolved to include card-not-present and mail order/telephone order. The environment became further muddled with the advent of e-commerce.

Tiered Rates and PCI

Tiered interchange rates based on different qualification criteria were implemented to affect merchant adoption and behavior. "Credit cards used to be primarily for retail and hospitality," Bills says. "Now, we're at the 20th anniversary of the p-card. Plus, card-not-present is much more prevalent. Now you think of all the ways merchants might accept a card, all these order vectors. It adds a lot of complexity."

Payment Card Industry Data Security Standards (PCI) compliance can also affect a merchant's costs. Determining how PCI affects the cost of a transaction can include factors such as where the card data is stored, whether the transaction is card-present or card-not-present, and whether the card terminal is PCI-approved hardware.

E-commerce Makes a Mess

When e-commerce arrived, many old-school payment processors did not have the knowledge needed to properly service e-commerce accounts. But processors that made e-commerce their area of expertise began to spring up, meaning merchants who wanted to sell in both traditional and e-commerce environments often needed two separate processors to handle their electronic-transaction needs.

When merchants started needing multiple methods to handle their transactions, interchange became confusing not only for merchants but also for ISOs. Suddenly ISOs were faced with merchants that wanted to accept debit, credit and p-cards, in person, by phone and online. And each scenario comes with its own interchange rate, qualifying rules and chargeback fees.

The challenge increases if an ISO serves markets such as health-care, retail and hospitality. Add p-cards into the mix and consider whether the merchant has average sales in the $50-$100 range or the $5,000-$10,000 range, and you're just beginning to understand what goes into writing a service contract for a merchant in today's electronic transaction environment.

And ISOs need to carefully set the price for each transaction type or watch their merchants flee for greener pastures. "How the different cards get processed is becoming crucially important at the cost level for the merchant," Bills says. "The same card can be processed at many different costs."

Each of those different cost levels will affect the bottom line of either the merchant or the ISO. If it's the merchant's bottom line that takes the hit, the merchant is likely to find a new processor at a lower price. If it's the ISO's bottom line, Bills says, then the ISO is cutting its margin to make the sale.

"If you solve for interchange qualification, that solves the problem of cutting ISO margin," Bills says. For example, given the spread in B2B interchange rates, if one ISO solves the interchange qualification problems of a merchant doing business-to-business transactions by selling the proper technology or eliminating a data-security issue, then another ISO would not be able to compete without addressing these concerns, even if it gave up all of its profit.

To Bills, providing a merchant the tools to qualify for the optimal interchange rate should be the No. 1 priority for an ISO. "Eighty percent of a merchant's cost is interchange," says Bills. "How a merchant qualifies for interchange is one thing they have a lot of control over."

ISOs must make sense of all the interchange factors that can affect the costs to their merchants. John Bodine, vice president of sales and marketing for American Fork, Utah-based Authorize.net, says, and Bills agrees, that this is where an ISO can separate itself from the competition.

Learning to Be Smart

"In our world, the single best thing ISOs can do is read, keep reading and read a lot," Bills says. "Be familiar with interchange and qualification requirements. Be informed on security. Have thoughtful conversations with the merchant about what's going on the market and their business."

To determine the kind of transaction package a merchant needs, Bills says, ISOs should learn about the merchant's business: What kind of customers does it have? Are they repeat customers or one-time buyers? Do transactions originate in the store, online, through purchase agreements or over the phone?

"The merchant may not even think his business is that complex until he begins describing it," Bills says.

An ISO that simplifies pricing and service in order to help merchants understand what they get for their money will succeed.

"You want to be the one the merchant is relying on for that solution set," Bodine says. "A merchant's need for convenience gives you the option to potentially bundle services and pricing."

Value Over Cost

Knowing interchange and merchants is only half the battle, Bodine says. ISOs must match customers with the right service and find the right price for that service.

"We've got to be selling on more than just the price," Bodine says. "Any merchant can shop price. But ISOs need to shop compliance, qualification and other factors to get the right processing value for their merchant customers."

If you find what the merchant values in his business, you can match the merchant with appropriate solutions that are important to his company. "The lowest price is rarely the best value," Bills says. "We know that on the consumer level."

If an ISO guides a conversation toward value and total cost, then low price is less important. For example, if a merchant needs to spend days instead of hours closing out a month of statements, there is less value in the low-cost solution. "At that point, it has nothing to do with interchange, but it has everything to do with value to the merchant," Bills says.

Bills says ISOs would do well to have general categories of service structured around different payment vectors and find ways to customize what is important to individual merchants.

"Let's say I'm a retail business adding an online store," says Bodine. "Each service has different pricing and are underwritten separately. What hasn't happened is one rate across accounts."

Creating a Bundle

But that may be changing as ISOs begin to bundle services from different sources and pressure multi-solution vendors to offer simplified billing customized for each merchant. Bodine says he sees a need for flexibility in supporting the ISO community with the model that best suits its needs. There will be more bundled pricing, customer support and billing options as banks and ISOs offer more services.

Bills says ISOs can better serve their clients by focusing on certain segments of the market and working with processors that will educate ISOs on changes within the market. Emerging verticals such as B2B, fast food and utilities represent growth opportunities in the acquiring industry, especially to an ISO that can focus on a business sector that fits into its core business. ***TT***