



KEY NOTES

- ▶▶ The closed-loop market is up 40 percent from 2006, and network branded cards will earn nearly \$155 billion more than they did two years ago.
- ▶▶ Historically, provider issues blocked widespread growth of the prepaid market.
- ▶▶ Standardization, possibly by Visa and MasterCard, of prepaid transactions could be the next big trend.



Show Them your cards

*Poised to generate \$421.5 billion
by 2010, prepaid cards should
be part of your sales hand*

By Lisa Dowling

The numbers are in: Gift and loyalty cards are must-haves for consumers, and according to industry insiders, they are the latest way to add some punch to your sales portfolio.

The closed-loop market will generate \$239.9 billion, up from \$171.2 billion in 2006, and network branded cards will garner \$181.6 billion, up from \$26.8 billion in 2006, according to a recent report from The Mercator Advisory Group. Industry observers estimate that gift cards made up 6 percent of holiday spending last year by bringing in more than \$35 billion—nearly double what was spent in 2005.

“My passion is gift and loyalty cards, but I feel so conflicted even speaking publicly about it because the industry has neglected the prepaid market so extensively that I may be waking up a giant,” says Jared

Isaacman, president and CEO of United Bank Card. “At UBC, our 2008 game plan has gift and loyalty right up there as one of the most important projects of the year. It’s a fantastic market.”

UBC is currently building out its platform to bring its entire prepaid offering in-house. It’s an attempt to overcome one of the biggest challenges facing ISOs and acquirers—third-party providers whose products and services don’t meet their high standards.

“Third-party providers have to evolve,” says Isaacman. “I know of three companies in this space, and our experience related to their solutions was inadequate. Yet, in spite of the mediocre prepaid solutions being offered, the numbers are still going up. Imagine what the numbers will look like when we do it right.”

Five percent of all new UBC merchants have gift card solutions, according to



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Isaacman. He predicts that rate will go up significantly once the company offers a timely, in-house solution that keeps the product fresh in merchants' minds.

“We sell a package prepaid solution to a merchant, and unfortunately, the gift cards

show up weeks later,” he notes. “These cards need to arrive with the terminal, otherwise they get thrown behind the counter and the adoption rate is not as fast as it could be.”

Systems' structure also challenges ISOs

that deal with third-party providers. Few providers offer an online interface to customize gift and loyalty programs, and the inability of merchants to easily change programs to generate maximum business results restricts everyone's success factor.

“Having an online management system for your offering is essential, and we'll be doing that with our in-house program,” says Isaacman, adding that prepaid offers many different sales strategies that help merchants grow. “Too many times, we have to convince a merchant to do things that will cost them money. Prepaid shows them how they can make money.”

Could this specialized service become a universal solution with huge retention benefits? Isaacman believes gift and loyalty cards are “the single, strongest product” available because they function as “walking billboards”—especially for merchants in the retail and hospitality industries. He also adds that ISOs can use them to protect recurring revenue and residuals.

“In the long run, retention will make your portfolio worth more, and prepaid ensures retention,” he explains. “You've got to adapt. All it takes is getting kicked in the rear.”

Last year, UBC got that kick when of



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ficials realized they were sending their gift and loyalty deals to a competitor.

"I had been procrastinating for two years about building our own gift and loyalty programs," Isaacman says. "Then TenderCard got bought out by Pipeline Data in November of 2007. There is a fundamental flaw in doing business with a competitor."

Selling the Deal

The trend started with long-distance phone cards, which were available at retail stores. It then followed a couple of macro trends, such as the explosive growth in cell phones, and a recognition that there was a market for the service among non-banked and under-banked customers as well as a growing immigrant population. Teenagers and corporate customers also jumped on the prepaid bandwagon because they needed a controlled budget.

"Companies realized they could appeal to and acquire customers who wanted an alternative payment method to traditional credit and debit cards—prepaid was the way to go," says Rich Eyberg, an associate with The Strawhecker Group, the largest U.S. consulting firm focused exclusively on the ISO and merchant acquirer space.

The biggest challenge for this market, however, was solidifying a provider. A completely different type of company initially serviced the market, and distributors bought products in bulk and resold them to retailers.

"These companies had no idea about ISOs or acquirers or merchants," says Eyberg. "And our business didn't know them either. There was a lot of confusion and a lot of products being offered, and it was difficult for merchants to successfully sell products that were priced differently and subject to technical problems, fraud, and customer dissatisfaction. But since national companies came on the scene offering a better electronic product that put trusted intermediaries in the process, prepaid has been more widely accepted."

The technology that came with the changes, Eyberg points out, was the same technology that credit card authorizers had been using for many years. The transactions for prepaid cards ran through point-of-sale devices and even looked like traditional authorizations. That is when ISOs took notice of the similarities and thought they could sell prepaid services to their merchants. The problem was—it was a different type of sale.

"ISOs are used to selling a merchant," says Eyberg. "In the prepaid arena, they have to convince a merchant to increase their own sales. It's a different type of sale and certainly a different mind set. ISOs need to show that their merchants will increase sales and generate customer 'stickiness'—two core concepts that ISOs historically haven't had in their bag of sales tools."

Calling Processors' Bluff

The other obstacle has been teaming up with the right prepaid partner.

"ISOs need to align with third-party processors who have the ability to process prepaid themselves or have partners they can wrap those transactions around," says Eyberg, who notes that it is better to have one provider who can do both.

"For the ISO, it's all about due diligence. Look at prices, merchandising support, and new product development activity. If your processor doesn't have prepaid capabilities, I suggest introducing yourself to product wholesalers and providers who buy in bulk—and are also looking to establish relationships with ISOs," he recommends. "They're out there. This is not a land of exclusive deals."



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But open- and closed-loop system providers have complained that they have tried to tap ISO channels but have had little success. They recognize that ISOs have their feet on the street and can market their products, but they can't seem to find the right partners. Eyberg says that's because they don't like some ISOs' sales techniques, but adds that with incentives, proper education, and promotion, these new partnerships can work.

What about the allegations that the products and services being offered by third-party providers are mediocre and inadequate to meet the needs of the ISO community?

"It is true that this business has had lots of players who promised they could process prepaid and ended up imploding," says Eyberg. "There have been a lot of entries and exits by relatively small, under-funded companies, so I don't disagree with that statement and understand how frustrating it can be for an ISO. On the other hand, the amount of connections one has to have to support prepaid programs is major, as opposed to just a couple for standard credit and debit. It takes a lot more hookups to get a viable program—all of which have

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— Rich Eyberg, The Strawhecker Group

different rules and regulations."

One solution to the myriad rules and regulations might be for Visa and MasterCard to step in and act as a clearinghouse for these transactions. Other discussions in the industry have focused on allowing authorization networks to handle prepaid transactions—but neither has gotten off the ground.

"Bringing in a level of standardization would solve the problem of lots of processors in this space and cultivate growth," says Eyberg. "This is a 'watch-out' trend."

Betting on Aces

Whatever the future may hold, the key to success in prepaid is mastering the art of selling these products, according to Eyberg.

"Offensively, the margins are greater for selling prepaid than selling credit and debit," he says. "If you don't have an integrated prepaid offering, you will surely leave margins on the table. Defensively, there are companies that currently sell prepaid processing services who can lead with a very tempting offering. If you can't lead with that, you increase your risk of losing merchants to those providers."

Organizations such as United Bank Card have mastered the art of selling prepaid—and they're banking on playing close to the vest.

"I hope other ISOs and acquirers don't jump on the prepaid bandwagon," says Isaacman. "I want them to keep doing what they're doing. That way, their merchants will come into contact with our agents who effectively offer prepaid—and those merchants will sign with us."

And that statement is definitely something to contemplate for those companies not adopting a prepaid or gift and loyalty card solution—yet. **TT**

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