COVER STORY

By Tom Wright

Technology in Today's World

A Roundtable Discussion

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.As part of ETA's 2007 Strategic Leadership and Networking Forum, the ETA Technology Committee convened a roundtable of industry leaders to discuss the current and future role of technology in the payments industry. The resulting discussion touched on a wide range of topics and points of view. The following is an edited transcript of the discussion.

Participants

- Mark Schatz, executive vice president, NPC
- Ed Freedman, president & CEO, Total Merchant Services
- Greg Cohen, president, U.S. Group, Moneris Solutions
- Heidi Goff, principal, HR Goff Inc.
- Jim Gustafson, vice president, Merchant Services, Fidelity National Card Services

Moderators

- Todd Ablowitz, senior vice president, Sales, VIVOTech, ETA Technology Committee chair
- Tom Tesmer, chief technology officer, Pipeline Data, Technology Committee vice chair

Tom Tesmer: First, I would like to offer my thanks and appreciation to the participants in this discussion, and then begin by asking our panelists a leadoff question:

We're getting feedback in the acquiring industry that suggests that merchants are fed up with the bombardment of solicitations for new accounts, et cetera. What can ISOs offer merchants that might differentiate their offering in the marketplace, or that gives ISOs something new, a new spin, a new product. What's your vision there?

Ed Freedman: I think when we look at our numbers over the last two years we've had kind of an exceptional growth period. I think a lot of that came from the technology. For the first time we started offering new solutions that actually met the needs of merchants like never before.

When we first started coming out with IP terminals, we had a huge bump in sales because all of a sudden the country really wanted a faster transaction. A lot of people didn't want to have a dial-up terminal that plugged into a PC. We just started with a simple thing like leading with an IP machine. We started increasing our sales just based on IP at first, and then we came out last year with the tap and go, the contactless readers. This is an example of technology driving sales. And by leading with technology, we add about 400 sales a month that we might not get otherwise.

Over the last year and a half we added a wireless solution. In the past we had offered a similar terminal, but it didn't work and we didn't get any sales from it. Today 25 percent of our total sales, over 1,200 to 1,500 deals a month, are coming from wireless solutions that work.

So if you ask how we grew from 1,000 to over 4,000 deals a month, I have to say that, besides being creative from a marketing standpoint, the technology is driving sales. The technologies that are moving our needle today are wireless, IP and contactless. And then we have other products, the cash advance products, that you now are seeing become more mainstream. It's a financial product, but there is technology behind it that allows companies like ours to get into it.

Anybody bringing new ideas to the marketplace that are valid and work that merchants want, will help continue to move the needle. And that's what we look for in technology, are products that merchants really want and that move our needle, not just something to spend more money on.

Todd Ablowitz:: Do you see products like cash advance being more likely to make new sales for merchants who might not have opened the door, or more to enhance revenues for the sales you're making?

Ed Freedman: You know, I think that we're getting new sales that we were not getting. A lot of the new business we're doing, a lot of the lead generation that our corporate centers are doing, are all coming from cash advances. A very small percentage of the cash advance business we're getting actually comes from existing merchants. From the existing merchants, I think that you get, you'll keep the merchants that are about to go to somebody who called them with an advance. But most of our advance business is from merchants that would otherwise not speak to us or sign up for our services if we weren't calling them up with advance products.

Heidi Goff: Are these any specific verticals?

Ed Freedman: I think, yes, restaurants are huge. About 80 percent of those deals that come in are from restaurants. But I think that that's everywhere. Once you find a vertical where merchants are needing money, then you start tapping into more of those kinds of sales.

Mark Schatz: The way I would ask the question is how do you do that? How do you differentiate? How do you kind of avoid commoditization? You really have to answer that question on a niche-by-niche basis because the answer to that question will be a little bit different in each case. If you look at urban restaurants and combine those with a certain size of merchant, the working capital solution like merchant cash advance is a direct hit. In the utility payment sector or recurring payment segments, more and more you're seeing the main package, credit card, debit card, and a variety of ACH mechanisms (indiscernible). So I think it's helpful to look at the particular niche.

Tom Tesmer: So you're suggesting there's value in differentiation between restaurant retail categories and silos of merchant price, but there's also value and differentiating market sectors.

Heidi Goff: And I think just as you have to look at verticals in the market sector, you have to consider whether a technology is ready for the marketplace. Like the example of wireless. Before you got to CDMA, GPRS, it wasn't ready. It wasn't that the product was not well conceived, but the technology wasn't ready. And so now that we have the proper wireless, hey, it works.

Ed Freedman: Right. I think the marketplace, the merchants, are ready for real solutions that work and that you can support. Over the last 10 years, we've tried to kind of break out of our numbers, and we always got pushed up against the fact that technology didn't work, or we couldn't support it. And so we learned our lessons.

Now we don't want anything that we're not ready to support and that hasn't been well tested, because if it's a loser, you're not going to get anywhere. But for the first time these technologies are working. Merchants really want them. And we're having a lot of success. But really what we're doing is we're re-outfitting the merchant for the first time. A few years ago, we didn't have enough reasons to get them to switch out or upgrade technology. Now merchants want to upgrade from their older technology to the new solutions that we come out with. And we think we have a good combination of products that they want, but it's evidenced in the numbers. We're not really doing anything different—the merchants really want the new technology. Where before they said, "This looks just like what I got, and it doesn't do anything more than it did, so I'm fine with this gray box I have." And some boxes lasted 20 years. Now everybody who has the older technology is looking at the new terminals and all of a sudden they're saying, "Yeah, give it to me." I think that says a lot for the technology.

Mark Schatz: You're really driving value as well as the product. You're really going to the merchants and now offering them a value that's backed up by IT and technology, which is good.

Ed Freedman: Yes. And there's enough reason for merchants to want to switch. And I think when you look at all the numbers, it's all coming from upgrading equipment. And we've been trying to do that for years, but it's finally being well received in the marketplace, driven by the solutions that we have chosen to offer. In the past we were all fighting over the basis points and that's not even in the conversation anymore.

Tom Tesmer: Heidi, there's a rumor in the marketplace that AT&T, Cingular, Sprint, and other global wireless providers are considering using their background technologies in building in capabilities to get into the acquiring business, such that waiving your cell phone wirelessly against a device of some kind may cause transactions or settlements to flow through those infrastructures.

Heidi Goff: Well, there are sort of two conversations, where the telephone company may accept a transaction and bill you on your statement, hence avoiding interchange completely. Or where the telephone company would deliver a transaction into the traditional payment system. So from the standpoint of can they go around the payment system, I think they have absolutely been looking at it. I think many of us have spoken to them. Certainly they've, at least one that I'm aware of, has contracted with a payment system company to be able to pick up the payments and deliver it so that they can bill it on their own statements. And it's in its infancy. It's ring tones and things that can be directly loaded to the phone.

Tom Tesmer: Selling product.

Heidi Goff: Yeah. Things that you would expect to have on your telephone company bill. But I see no reason why they would not move forward in providing a broader set of payment systems using their own infrastructure as opposed to their classic credit card payment system. Or they use both. It depends upon what operating system is sitting on that whatever the access point is.

Tom Tesmer: Where do you see the impact on the marketplace and on our industry for these guys that are monsters?

Heidi Goff: I think initially it's about micropayments and it's about new transactions. I think that has, they're really creating a new idea. I know a lot of people have said, "Well, I walk into the store and I buy something like this, and then I'm going to download a transaction or a coupon to you relative to your current purchase. But by then you've already checked out, so if you're still past tense in a transaction. Unless they strategically make decisions to become payment systems, which they could, I think that it will, for at least the near future, three to five years, remain in the purchase of nonphysical goods.

Tom Tesmer: Intangibles.

Heidi Goff: Ring tones, music, Napster, that kind of stuff. I'm sure a lot of people disagree with that, but I think it heads toward micropayments.

Greg Cohen: I was going to say the telcos concern me more like any other bundle product offering. You see it with Sage and Intuit today, and you're going to see more players who take card processing and bundle it with other products. You can potentially use card processing in certain areas as a loss leader product. We've got Capital One in our business that will give away a business credit card to a business owner, making their spread on that side, and virtually do the card processing for that business at a loss. It might be a small merchant because they're making so much more on a card product, but you can see similar types of things with any other significantly funded product that we would consider a value-added product. They would consider the card is value-add, using us as a loss leader, driving margins down and making it more difficult for traditional players to compete. And I think that new companies will be playing in the value-added bundling game with our product, and I look at telcos like I look at Intuit like that. They partner with us today and they'll compete against us tomorrow, exactly like Intuit did.

Ed Freedman: There's a plus in that as mobile devices become devices that payments are being made with, using the card brands, because its going to have to have that component. You can't say we don't offer that component. The driving volumes are going to be huge. There will be a lot more transactions, and we're going to benefit from that side. I just signed up for HBO on my cell phone and it doesn't get billed to my credit card. And I'm paying $4.95 a month for HBO through my cell phone bill versus if I was buying a soda from a machine and it was using my credit card, that would drive a lot of volume toward our industry long-term. Given the massive amount of cell phone usage, a lot of it's going to be driven through the brand payments system.

Greg Cohen: Does that concern you, the fact that you make a 60, 70, 80, basis-point spread on Visa and MasterCard, and once it goes to the phone, the brand becomes … you lose brand identity. So now it becomes a PayPal transaction or another kind of transaction where we only make a nickel.

> **"You're really going to the merchants and now offering them a value that's backed up by IT."**
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> —Mark Schatz

Heidi Goff: Why isn't it just an AT&T transaction?

Greg Cohen: Or an AT&T transaction. But the disintermediation of our core revenue streams is the concern. It's positive and negative—you can look at it an opportunity as well.

Todd Ablowitz:: One thing that I'll throw out there is that there is a reason that the big behemoths may not be interested in getting into some of this. And the reason is receivables. The U.S. is the only country in the world that has post-paid cellular. Most of the world is all prepaid cellular. So they have a concern about the receivables, and bigger tickets are bigger receivables. And when you start get into hard goods and you start dealing with Reg E. And so all of those different things are things that all go, as you take away from this, that's an important thing.

Heidi Goff: But late charges and service charges and credit fees are a big piece of the money for the banks.

Jim Gustafson: Yes. And all they do is they shut your cell phone off.

Heidi Goff: Which does give them direct control.

Jim Gustafson: I think it's one step away when you look at it. Verizon now is accepting, in our market, is accepting payments over cable over the Internet. So they might say why not cell phones. Let's accumulate all these accounts and get into it.

Tom Tesmer: Merchants are waking up rapidly to interchange costs. You can see it in class-action suits. Everybody is girding up for a huge legal battle and merchants are having their eyes opened. What do you see for the future for the interchange payment methodology?

Jim Gustafson: I guess honesty is a good policy and the fact is that it's making everybody be honest. This is going to drive down everybody's pricing to interchange plus their costs. And it's waking up the consumers. But again, it's one of those situations where what the consumer knows, as long as we can combat it with value, I think that it's not going to have a major impact.

Mark Schatz: I think it's a real opportunity as well. The transparency Visa and MasterCard have provided in putting it out there. And if you look at the national merchant segment, it's been transparent for a long time, and a lot of national ISOs consult with those merchants to show them that the interchange piece is the lion's share of their acceptance cost, and help them manage that cost downward. I think that approach and that opportunity to consult can move further down market, and it gives us an opportunity to help merchants manage their costs. But you also really have to balance it. There are some merchant segments where that transparency is really a nightmare. I mean, there is some value to simplicity, so you really need to segment and understand the segments, and to recognize that there are the right kinds of places for bundled pricing propositions. And so you have to provide those solutions and look at it as a complicated, differentiated opportunity.

Jim Gustafson: It goes back to what Ed said earlier about really managing the interchange for your merchants. If you can offer them a product and manage the interchange for them, now you become a consultant and you can really get some get some loyalty out of that.

Ed Freedman: One of the things about our industry is that we're all subject to the same rules and we're all paying the same costs for the interchange and we're all adapting to the same information. The technology side is really what's driving the difference between my company and it's what makes us unique more than the interchange. The fact that we're all subject to the same interchange makes technology even more important because the interchange is seen as the commodity.

Tom Tesmer: What do you think about Google and Google Checkout, PayPal, and other players that aren't really credit card/interchange players entering the market space?

Greg Cohen: My first thought is that they are the biggest disintermediary in our space. We can compete against each other all day long, but at the end of the day we all do most of our business around credit card transactions. That's the lion's share of it all. We kind of know where American Express plays. We've figured out how to coexist with American Express. We have some really big new players and new technologies in our space. And one of the things we all do is we all love to one-up each other and compete at the point of sale. So we've got one company that starts pushing PayPal today. Then I'm going to want to do it. Ed's going to want to do it. Mark's going to want to do it. We're all going to want to do it, so we'll get out there, and we're going to all be making switching fees and maybe even some small origination fees to get that merchant. And if Pay Pal happens the way it could happen, we're all selling VivoTech proximity devices or maybe giving it away, and putting it out there, and you think about it, and we're seeding the market for NFC transactions. And then all of a sudden, everything moves over phone. Mike even suggested in a conversation this morning that everything goes better (indiscernible). Every kid under the age of 25 doesn't pay (indiscernible). And so now all of a sudden I can go to a retail location, do a NFC transaction that's completely on us in the PayPal world. Maybe we switched it out like we did American Express. Ten years down the road, we all seeded the entire market so that PayPal now has 50 percent of the point of sale of our transactions because they're offering an issuing a product that's stronger than all of the Visa and MasterCard products. I mean, this is pie in the sky stuff, but with the money that companies like PayPal and Google have, it's not completely unfathomable to think about it. So the question is, are they going to be there? How are they going to be there? Yes, they'll be there. How we play with them is something I think all of have to deeply look into and say how and where do we play, and how do we make that arrangement work and still make it profitable? And do what's right for the merchants?

Tom Tesmer: Do you think we should learn to play with them?

Greg Cohen: I think we have no choice but to play with them or they will cut us out. They don't need us.

Heidi Goff: Yeah. They are both issuer and acquirer. They acquire into the MasterCard or Visa business from the standpoint of getting funds …

Greg Cohen: From a Visa and MasterCard standpoint. But from a PayPal network standpoint, they could issue on a PayPal transaction. And they could do the settlement of a transaction and make sure the merchants pay and everything. So the concern is not from my standpoint what they do with Visa and MasterCard transactions. My concern is what happens with the PayPal payments network.

Mark Schatz: Or when they start talking to Verizon, then we all have to run.

Todd Ablowitz:: Is it not the same as Discover?

Greg Cohen: Discover now has decided they're going to play with us in a similar manner as Visa and MasterCard, so it's the same as American Express. We're not scared of American Express because we know where, we're used to dealing with them in our environment. They've said how they play in this space. It's not as lucrative for us when an American Express transaction is run, but we know where they play. PayPal and with the emergence of the phone and the money they have, and what they do is a bit scary.

Ed Freedman: I think the Discover model is definitely the more interesting of the payment networks—trying to get traction, trying to get traction, doing it in their own way, and then realizing that we can get a lot faster to where they want to go by working with us. It may serve as a good example if Discover is much more successful—as they should be—because it's a much better context for them. I think other payment providers will look and say, "Look at what Discover did. They were floundering there for a long time trying to cut you guys out, and then look at what happened when they included them." I think it will serve as a good test for us to look at over the next year.

Greg Cohen: I can't see PayPal ever doing that. That's just a …

Ed Freedman: You could have said that about Discover. You would have said that about Discover 10 years ago, five years ago, three years ago.

Greg Cohen: I look at the positioning of a Discover versus the positioning of American Express and the positioning of a PayPal and I see very different brand positions and strategies.

Heidi Goff: And I think the emergence of e-check and the whole automation of the ACH divide will only make them a stronger brand than they've been in the past.

Greg Cohen: Merchants are going to do anything in the world they possibly can to not run a Visa or MasterCard transaction if the consumer buys into that. We know that. So if they can make it fly, there's a need there. NFC has got to happen. Things have to get onto the phone. So it's taking the brand out of the transaction.

Ed Freedman: Like I said, I spend a lot of (indiscernible). It's funny how many locations (indiscernible) merchant centers who won't take American Express.

Greg Cohen: Because it's too much.

Ed Freedman: It's too much. Because it's too much. It won't take it, and that's pretty interesting. That's the example of what I feel is at risk because you're sitting there saying, there's no way a merchant can refuse a Visa or MasterCard. Are they crazy? They have to. And we're not trying to spend a lot of money because we're not taking that thing. We end up paying for it. And the fact that they've refused, merchants are sitting there picking and choosing their payment acceptance products for the first time was kind of alarming to me.

Tom Tesmer: But the industry is giving them the ability to do it.

Ed Freedman: Right. So when I start hearing that kind of stuff …

Heidi Goff: Debit and PayPal just create another lower threshold.

Ed Freedman: Yeah. And this proves that merchants are willing to pick and choose.

Tom Tesmer: If they have the opportunity to do it.

Ed Freedman: And when Visa said you can't pick or choose, you got to accept them all when they come all the time. Now we don't know why the hell it took so long. And now we don't know why we spent all that money fighting it because it was good for their business and our business.

Todd Ablowitz:: Does it not play right into the story about why this industry is very important in the scheme of things, because those merchants who wouldn't take American Express partially because their sales rep made it visible to them that, hey, this is going to cost you more and, sure, you just can just uncheck it. But do the people, what do you think about the opportunity to use or not use a PayPal over time, even in 10 years, as an opportunity, because the merchant is also going to be worried about getting paid? They're going to be worried about how sticky that money is, are they not? And so all those things are going to come in. There's cost to those things.

Greg Cohen: I don't disagree with you. I have an argument with Brad. I think the argument holds water with the gratis card. I don't think it applies to Google and PayPal.

Todd Ablowitz:: Because they have a consumer base?

Greg Cohen: They've got a huge consumer base. They've got a brand that's here and here for a long time. They have a market cap that surpasses the Visa and MasterCard. That's significant. I mean, that's why they've got the brand.

Heidi Goff: So once you have that infrastructure to protect the payment and protect the merchant, you have strength.

Todd Ablowitz:: What are some examples of things the industry can do to deal with this potential issue? What are the right things to do? You said we have to put it out there. We have to get it to NFC. What's the right approach for us today?

Greg Cohen: The bigger the acquirer, the more defensive the argument is. You don't want to cannibalize what you have. The opportunity really presents itself for the savvy, smaller acquirer looking to build share.

Jim Gustafson: And ultimately you have to be willing to cannibalize yourself versus the alternative. I think fundamentally ISOs are there to provide solutions to merchants. If that's PayPal, then you've got to do that.

Ed Freedman: If they want to play with you. But as Greg said, 90 percent of our revenues are coming from Visa or MasterCard. And I think that obviously the Visa and MasterCard best interest is to protect themselves, so it's in our best interests to support that and to proactively do what we can as industry behind the scenes because they're fighting for their existence.

Greg Cohen: If I'm a de novo acquirer, a de novo ISO rather than one with a big portfolio, and I go in with the solution with ubiquitous acceptance, I have a tremendous opportunity in the market by being able to offer the full gamut to merchants. Maybe it's a little early to talk about it in 2007, but it's a huge opportunity. So the question is, when do you decide, wow, you know, I've got to cannibalize some of what I've already got out there? I think we'd all like to see Visa and MasterCard win. Hopefully being public will make them a little more creative, with new products to bring in to go after some of these segments. If our job is to serve the merchant, we have to provide the best solutions to the merchant, and go and get that ubiquitous acceptance and find a way to play in there. And invite the alternative payment people in because the worst thing is if you keep them out, it'll be right in their face. I think the best way is see how we can structure a way to work together.

Tom Tesmer: Mark, let's talk about technology. We all are very familiar with merchant churn and the difficulty we have of converting merchants from processor A to processor B to processor C. What are your thoughts on either eliminating churn or figuring out a way to make it easier?

Mark Schatz: I think there's a lot of investment that needs to be made both in back-room infrastructure and how you interact with core processors, how you interact with your own servicing platforms. I think to the extent that you've got the wherewithal to make those kinds of investments, puts you in the catbird's seat to really ride those types of transitions.

Ed Freedman: You're talking about attrition and terminal manufacturers and how technology can help minimize this transfer. There was a solution brought to us a few years ago in which software came with a password so that our terminals placed in a merchant location are locked down, so that the merchant can't just reprogram to somebody else. That was an example of terminal manufacturers and technology solutions to help me make sure my merchant just doesn't leave me tomorrow after I gave him a machine for free. The merchant has to call up and say, hey, I want to leave, can I get the pass code for this. And I have a chance to talk to him before he leaves. A technology provider came in and saw that as a huge problem for me and said we're going to fix that, and here's our technology solution. We're over two years into this concept, and our attrition has come down greatly.

Tom Tesmer: Jim, near-field communications. We just came out of a pretty good session on this. What is your opinion of the slow start, the seeming bump and grind to get the thing going? We've seen mobile key pods and mobile PayPass. Do you have thoughts on that?

Jim Gustafson: Well, yes. It's what comes first, the chicken or the egg. You've got to get the acceptance at the merchant level. You've got to get the acceptance at the cardholder level. Which one do you need to drive first? It's very similar to biometrics. Pay By Touch is coming up against this. Which way do you go? Really you have to start giving away the point-of-sale devices to get the cardholder to start using it. I mean, you do have to make that acceptable. A cardholder will use what is the easiest way to pay for a purchase, and that's what you need to do. And you need to make it easier, and once you make it easier, then you'll see them starting to use it.

Tom Tesmer: That's an interesting comment about the chicken and the egg. How many banks is it going to take to issue the cards that are able to use NFC before we tip it?

Greg Cohen: Do we really believe the near-field communication is a card product? I mean, I still have a tough time seeing it on a user acceptance card. It's tough to develop. I don't think the card ever really gets to where you want it to get. The chicken is getting it placed, getting the proximity devices all out there. We're hoping to get some card pilots going. But we're just seeding the playing field.

Heidi Goff: The economics of the phone are just so much stronger because everybody's got them.

Mark Schatz: And it's one less thing to carry, too. As long as they can carry less things.

Tom Tesmer: Well, the next question. What is the medium? And what do you think is going to be the most preferred methodology for micropayment? What medium, is it the phone? The card?

Greg Cohen: Is it a network? Is it the traditional brands we know or is it some ACH brand?

Heidi Goff: I've been really involved in this, but it's the economics that drive the vending to want to create an environment where they can manage the cost of the items of the machines in a profitable manner, and it can accept and send multiple transactions. So having said that, they want as many cards, as many whatever it is, to be accepted at that machine. As far as the general vending industry is concerned, bring on the old plain old card. There are 300 million versus two million. It's not a question of new technology. The new technology, in vending, and in micropayments, is in the settlement, in the effective cost control on the back end.

Greg Cohen: Today is there significant share moving out of cash?

Heidi Goff: Yeah. I think more of it's moving in the Internet.

Greg Cohen: What happens when you get below five bucks?

Heidi Goff: It's going, yes. As it moves ahead, costs will drop and it will be cost-effective for use cards for snacks, salty snacks and sweet snacks. You can see where as costs drop, it could be possible to drop the threshold to a dollar. Chewing gum is still the problem. But you know what I'm saying.

Greg Cohen: Right.

Heidi Goff: Yeah. You can see exactly where it hits it, and then put a card reader onto a vending machine, and start accepting credit cards; you can see very specific growth in vending sales. I mean, even when the consumer is not expecting to see that level there, I think they get the fact that if there is a logo there, consumers will buy with their credit card.

Todd Ablowitz:: Yeah. People will pay a dollar for a Coke, but they won't pay $1.05, not because they wouldn't pay that amount of money. They'd have to have a nickel to go with their dollar, and they may not get change, or they may not want to put two dollars in, and get 95 cents. I wouldn't do it.

Heidi Goff: We saw wireless at the Las Vegas Convention Center during the consumer electronics show. They were charging like six bucks for a Coke, eight dollars for a Red Bull. And people were just like, no problem, because of the mentality. It is growing.

Tom Tesmer: Question for the whole group. What's the best market or niche for the industry to concentrate resources?

Jim Gustafson: Business to business. Anything related to recurring billing in general could see tremendous growth, including utilities.

Greg Cohen: Health care obviously. Health care, but people are still waiting for the killer app. I mean, the aging population and the government pushing payments to cards, I think health care, the killer app is still missing.

Todd Ablowitz:: So you're saying that one is to come in the future, but it's not ready yet? Is it like wireless?

Greg Cohen: Well, the growth is there. The opportunity is there. The technology piece that's missing is how to get five different ways to pay for one transaction and splitting money into five different ways, and settling it and reporting on it.

Jim Gustafson: But even beyond that, more and more the payment burden going to the consumer. There's natural growth there.

Ed Freedman: I talked earlier about the technology that was driving as far as our verticals and being ideal environments for contactless and being drivers of the business. And the other driver of our business is alternative distribution channels. And if you look at companies, at what other companies are doing besides technology, they're saying, hey, let's (indiscernible) bars. Our distribution centers have been traditional merchant levels, and they're going out, and now every guy who sells Mocros is a merchant account. So it's a new distribution model. So in the areas technology-wise when IP and computer-based systems are becoming the prevalent devices, and all of a sudden you're changing your distribution channel, that's a significant opportunity for growth. If I only had one distribution model, it would be a merchant level salesperson if I only had a direct salesperson (indiscernible). There's a whole new team of professionals that don't look like the guy that we have today. This is an area of growth for our company where we're getting a whole sense of who our dealers are, and you can't just look at the technology like IP wireless because it's also what's your distribution model. And there is a shift that is occurring. If you only stick to what you've been doing, you may get the same or worse results and worse findings by not only changing the technology, but also adding distribution channels that have never been listed before.

Greg Cohen: Technology partners are now very important.

Ed Freedman: Because the technology changed, so the sales change, so the rep has changed. And if you don't have a program geared toward that ... I know this company Mercury Payments came out of nowhere and it's all because they came up with a new distribution model.

Tom Tesmer: What about you, Mark? Where would you put your money?

Mark Schatz: As I've mentioned, you find vertical segments and B2B, as Greg mentioned, the health care segment is huge. Anything to do with recurring bill payment and the convergence of ACH payments along with credit and debit. Nonprofits, the nonprofit segment is huge, and that's kind of relative to the way recurring payments (indiscernible), and the aspect that you've got to be able to take a credit card and debit card. I think really plugging into some of the high-growth segments, there's a lot of opportunity and, as Ed mentioned, kind of plugging into strategic partnerships with alternative distribution is key.

Tom Tesmer: Taking that question backward, is the traditional model of interchange dead?

Greg Cohen: I think taking into account Mark's theory of taking all these different payment methods together, you may actually see the margin we make on card will go down. The goal is if we can provide all the payment solutions for business, the gross take we'll make from the merchant will be greater, though the card piece will be less. And if you're going to take that approach toward giving what we need to a merchant, we can make four or five revenue shares off the merchant, though the card piece itself might be less. And I think just going out and pitching the card only at some point becomes a zero-sum game. And it's just a matter of who can get to the bottom first.

Mark Schatz: I'd say make no mistake about it, I think the ISO model and the agent model is still going to be, is alive and well and will still thrive in the future. I think that the agents and the sales groups who will really do well are going to be those who understand the vertical, have relationships, understand the nuances of how they have to operate in their particular segment and environment. And then they kind of partner up with the right types of entities, service providers, that allow them to focus on the marketing sales efforts.

Todd Ablowitz:: So you mentioned that high growth areas are important and that makes sense. One question is, if I'm at the merchant level sales, when I started in the business my boss said, "Hit them where they ain't." I was a merchant level salesperson, knocked on doors. He said, "Hit them where they ain't." Knock on the door where no one else is knocking. So my question is, one area is high growth. Is there another area that's not enough attention that you would recommend to a merchant level salesperson possibly on your platform? What should they go after?

Mark Schatz: A lot of times they are not mutually exclusive. They've got parking lots and independent venues to (indiscernible). You get into the leading-edge parts of a market evolution. And there are some agents and entities that will focus on those segments, and that's tougher. You have to have a longer patience. But I don't think they are mutually exclusive.

Ed Freedman: I think to the merchant level salesperson, the opportunity today is that 99 percent of the country's retailers and restaurants have this older technology and they have not received the upgrades. And so we're going after the country and saying it's time to upgrade. Everybody is doing dial, and five years from now nobody's doing dial. We made an investment to put our machine out there with an IP jacket in it. We spent 65 bucks more per machine and we show it to a merchant and a light bulb goes off. I want to put it in IP. We want to be able to plug it in and not lose. So I think the big opportunity for a salesperson is we go out to the entire country and say, "This is over and that's that."

And this is new. And it's where we're experiencing growth. We're upgrading people's equipment and using technology as the sole reason to switch. And that's the opportunity for the merchant level salesperson today is going anywhere and saying, "These are the reasons why you need it," and there's enough payment solution reasons, enough products are loaded on that box and cost points are justified to make that switch. They we're getting into price on discounts. These guys are saying that that's 20 years old and this is not.

Heidi Goff: What do you think is the percentage already upgraded?

Ed Freedman: Very small. We're just getting started.

Tom Tesmer: Do you think the card associations will come to the point where they will force either directly to the merchant or through your entitles the discontinuance of support for the older devices?

Greg Cohen: I don't think they'll pick on the device. They'll pick on the requirements, and then that will drive us. But the bigger issue is the point-of-sale system. You can take the terminals out of it. The majority of the transactions that are running in the U.S. are not run on terminals. They're run on integrated point of sale systems at national accounts, mid-tier accounts. And when you've got a population of which more than 50 percent are not PCI compliant, and we're held to having these things be compliant, therein lies the bigger issue. It's the point-of-sale system that's doing 1,000 transactions a month that's the issue.

Ed Freedman: And these opportunities are coming up for us because all the POS guys are calling us, saying they have to get the new upgrade. And all of a sudden the technology security requirements are to our advantage because it's creating a lot of people to say, look at it, I have to switch, I've got to make a change. At what other point in history of our business have people called you up and said, "I got to make a change, I've got to get something that's PCI compliant."

Jim Gustafson: When was the last time a merchant called you and said …

Ed Freedman: Right.

Todd Ablowitz:: What do you think is the future of the point of sale? Is it terminals? Is it more integrated? People have predicted the demise of terminals for a long time. I haven't seen them go away yet.

Heidi Goff: The terminals are just one issue, and for the mom and pops, why would they go away? The only thing they're going to change is to go to an IP terminal, and the terminals are going to have more capability, and they're going to be softer. But I don't know why they would go away. ***TT***