

Differentiation through Specialization

By Bryan Ochalla

Whether it's hotels, health care, or schools, successful ISOs find success by **targeting** specific markets

KEY NOTES

- ▶▶ ISOs considering specialization can start by evaluating their merchants: What types of merchants have you attracted? Which are most profitable? Which ones are happiest with the solutions you've provided?
- ▶▶ Recruit salespeople who share your vision. Ensure sure the people you hire see and serve the market the same way you do.
- ▶▶ Attend conventions and seminars related to the industry you serve and seek partnerships with membership associations to get your name recognized.

Twenty years ago, many ISOs tried to be all things to all merchants. But today, many highly successful agents have scaled back their approach and instead do *more* for *fewer* businesses.

That "wholesale mentality" may have been a sound strategy back then, especially for larger ISOs, suggests Greg Cohen, president of Moneris Solutions USA, but today it's only worthwhile if your strategy is to go out of business. That's because it's costing small and medium-sized ISOs a lot more than it used to.

"These ISOs used to be able to hire contractors and be profitable from the first or second month with a merchant," Cohen says. "Today, they pay bounties for bringing in merchants, give away free terminals and share a huge amount of the revenue stream from the merchant with the sales channel.

"It doesn't take a genius to figure out that the ROI isn't as good as it used to be for ISOs still using that tactic," he continues.

"In order to succeed in that arena today, you have to have pretty deep pockets just to cover the up-front costs needed to acquire merchants. All of which makes it pretty difficult for small and even medium ISOs to succeed by following the 'old way.'"

Finding Focus

"If you want to be everything to everyone in this day and age, you'd better find a way to differentiate yourself," says Mary Gerdts, president and CEO of Phoenix-based POST Integrations Inc. "If you don't, your competitors certainly will."

Gerdts' company has been serving the hotel industry—and *only* the hotel industry—since day one.

While working in the sales department of an unnamed ISO, Gerdts was introduced to the controller of a nearby hotel when an associate went AWOL. "The president of the company asked me to go instead, even though I didn't know a thing about hotels at the time," she recalls.



After that first meeting, Gerdts was hooked, and the controller quickly put a bug in her ear about starting an ISO dedicated to the hotel industry. “He kept telling me, ‘Hotels need somebody like you; we’re forced to take credit cards, we never have anyone to take care of our accounts.’” So in 1991, she took the controller’s advice and founded POST Integrations with everything she had in the bank—\$490.50.

“I love this business,” Gerdts says. “I truly think it’s the most difficult niche there is because it requires both high tech and high touch. Most people shy away from it because of that, but I’m attracted to it.”

Diamond Mind Inc. in Rockville, Maryland, focuses on a similarly underserved market: independent schools. Like Gerdts, CEO Katherine Novikov knew little about the industry before she opened the company in 2002. She and her husband were thinking of placing their children in independent schools at the time, “so I definitely had them on the brain,” she says. “But I

didn’t know much more than that.”

She soon realized the industry wasn’t being served all that well by other ISOs. “They had merchant services in place, of course, and I suppose you could say their minimal needs were being met, but no one was taking care of their ‘bigger picture’ needs.”

Independent schools, she adds, tend to be served by everyone from big processors to local banks, “anybody and everybody. And most entities take a shotgun approach. There’s not much specialization going on in this industry.”

Richard Spigai and David Schwartz, president and CEO of HealthCard Systems, decided to focus on the health-care industry for similar reasons when they started their New Jersey-based ISO in 2002.

“Ten years ago, if you went into a dentist’s or physician’s office and offered your credit card, they’d look at you like you had two heads,” says Spigai, a 35-year veteran of the industry. “Today, it’s commonplace

for the health-care community to accept credit cards. So, we saw this as a unique opportunity.”

That’s not to say health-care providers are an easy sell. “It’s actually tougher than getting a retail business,” Spigai says. “The decision makers—whether you’re talking about dentists or doctors or optometrists—are never around, and when they are they’re busy as hell.” On the flipside, he adds, “the retention is greater for the ones you do acquire. It’s kind of a double-edged sword.”

Becoming the Expert

For Gerdts, Novikov, and Spigai, the word of the day—or the decade, for that matter—isn’t so much “differentiation” as it is “specialization.” Their ISOs have become successful because they and their staffers have become experts in the industries they serve.

“They know about all the various areas on a particular campus where credit card

processing may be relevant,” says Novikov of the Diamond Mind staff. “They know about all the different applications that a school may use and how those applications can be connected to our processing. They know about the cultures and philosophies of schools. They really can talk the talk.”

Novikov says that’s important because “if you’re talking to someone at a school and you call them a merchant, for instance, you’ve lost them. They think, ‘I’m not a merchant!’ They’re nonprofits, they’re educational organizations—call them a merchant and they’ll know you don’t ‘get it.’”

Gerdt says similar unspoken rules are in place in the hotel industry. “Anybody who deals with these clients quickly learns that you don’t put their customers in a queue, and you don’t send them to some automated system,” she says. “They’re not calling to figure out how to load paper into a printer or to find out where their deposit is—they’re calling for much more complicated reasons.”

Such clients require the assistance of people who know their industry inside and out. Like Diamond Mind, POST Integrations offers just that. Most of the staff comes from the hotel industry, not the credit card industry, which sets it apart from other ISOs.

“My goal was never to be different from everyone else out there—my goal was to be the best provider in the hotel industry,” Gerdt says. “Whatever that required was what I did, and mostly that meant gaining a complete understanding of hotel operations and providing a group of professionals to support that environment.”

Linda Rossetti says the ISO she founded in 2006—Bluestone Payments in Peachtree City, Georgia—focuses on building relationships with local community banks and has benefited from following a similar path.

“The decision to service this niche market was based on my years of experience in working with financial institutions and processors,” Rossetti says, adding that customer service is a key component of her company’s success. “For instance, community banks require payroll service, remote capture, prepaid products, and a top processing platform”—all of which Bluestone Payments provides.

“By providing this specialized service, we establish ourselves as a trusted partner for our local community banks,” Rossetti adds. “It’s a great differentiator. We bring



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—Linda Rossetti, Founder, Bluestone Payments

knowledge, expertise, and professionalism to this market that few other ISOs can match.”

Adopting a New Focus

Niche-focused ISOs like Bluestone Payments, which is barely more than a year old, may be a sign of things to come.

“We’re starting to see smaller ISOs moving in that direction, but I don’t think they’re moving as fast as they should,” Cohen says. “The old adage, ‘You can’t teach an old dog new tricks,’ is proving to be true here.”

That’s not to suggest all wholesalers should throw up their arms and then wrap them around this new niche-focused strategy. “If you’re in the wholesale space today and you’re doing well, don’t cut off your nose to spite your face,” he adds. “But now is the time to start new distribution channels as well.”

ISOs can start by evaluating their merchants. “What do you have a lot of, which are the most profitable, which ones seem happiest with your solutions?” asks Cohen. “Then continue to build a packet around that and drive deeper into those segments.”

Spigai offers even easier-to-follow advice: “I think the first step has to be to select a target SIC (Standard Industrial Classification) that you feel offers your ISO an opportunity and then study the heck out of it so you can understand the nature of that industry—the potential opportunities and pitfalls—and address both.”

He also suggests attending conventions and seminars related to that industry and partnering with various associations to get your name recognized. “You have to get involved with and understand exactly who your clients are. If you lose sight of that, you risk becoming generic to that industry, which will cause potential clients to scratch their heads and ask, ‘So how exactly are you different?’”

Rossetti and Novikov, on the other hand, suggest ISOs focus on a market they are passionate about. “Specialize in a field that you love and then make yourself an expert in that field,” adds Novikov. Once that’s been accomplished, recruit other people who share your vision. “You can’t recruit people generically—you have to keep a lens on and make sure the people you hire see and serve the market the same way you do. If not, no matter how good they are at selling, you can’t bring them on board.”

Cohen agrees that discipline is needed for an ISO to differentiate itself by focusing on specific markets. “You’ll always have people at your company suggesting that you partner with other companies,” he says. “If you can focus your dollars, though, and gain impressions with the specific niches you’ve decided to focus on, that’s when you’ll really start to see things come together.” **TT**

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