

LEADING

How durable competitive advantage—strategies or assets that can't be easily duplicated—predicts market dominance for ISOs/MSPs

By Julie Ritzer Ross

KEY NOTES

- ▶ A competitive advantage is the reason a customer prefers to buy from you vs. a competitor. A durable advantage is one that does not diminish over time.
- ▶ The “packaged solution” represents a durable competitive advantage to the extent it delivers service predictability, financial and regulatory predictability, acceptance ubiquity, and marketing opportunity.
- ▶ On the service side, taking relationships with merchants to a new level is one viable element of durable advantage, as are value-added services and programs.



EDGE

As they compete for a seemingly shrinking piece of the merchant account pie, ISOs/MSPs are working harder than ever to establish and maintain durable advantage. “ISOs/MSPs can no longer compete on price, because merchants look beyond that in selecting their partners,” says Joe Kaplan, president of Innovative Merchant Solutions, an INTUIT Company. “If they came to you on price, they’ll leave you on price. Something else is needed to make them stick—and a durable advantage is one of those things.”

Also known as durable competitive advantage, sustainable advantage, and sustainable competitive advantage, durable advantage is what makes some companies get ahead and stay ahead of the competition. “A competitive advantage is the reason why a customer prefers to buy from you vs. a competitor (or any other option available to the customer). A durable one is one that does not diminish over time,” explains Victor Cheng, a Redwood City, California-based independent advisor to technology company CEOs and a former McKinsey & Company analyst.

For ISOs/MSPs, durable advantage might be achieved through technology, portfolio specialization, customer service orientation, or myriad other factors, says Cheng, who adds that durable advantage should not be confused with temporary, tactical advantage, strategies that are easy to duplicate with minimal time and effort.

“If a small ISO or MSP has a lot of restaurants in its portfolio and is ‘good’ at dealing with that type of merchant, it’s a temporary tactical advantage because any similar organization can also be or become generically ‘good’ with customers in the same segment,” he explains. “But if that ISO or MSP has built a recruitment system around agents who were once in the restaurant business and/or has a specialized payment processing offering for

restaurants, etc., its advantage is tough to copy and therefore durable.”

While durable advantage is a critical weapon for ISOs/MSPs no matter the economic climate, it’s especially critical under recessionary conditions. If two entities “provide the same service at the same price, but one has a durable advantage in that it solves a certain customer problem faster, in a unique way, or both, most, if not all, customers will take their business to the latter,” suggests Lisa Lang, president of The Science of Business, a Golden, Colorado-based international consulting firm that specializes in helping companies achieve bottom-line results by applying the Theory of Constraints, lean manufacturing, and Six Sigma. “It’s just human nature—and in tough times, value wins out.”

No Silver Bullets, But...

At the highest level, the elements of durable advantage created by ISOs/MSPs reflect a thorough understanding of the geographic, industry, and/or business life cycle of a given merchant segment or segments and incorporate payment acceptance solutions that resonate with one or more of these segments.

“The ‘packaged solution’ represents a durable competitive advantage to the extent it delivers service predictability, financial and regulatory predictability, acceptance ubiquity, and marketing opportunity,” says Mark Schatz, executive vice president of National Processing Co., which has corporate offices in Louisville, Houston, and Chicago. Service predictability, he says, comes in the form of a “go-to person or group” merchants can count on when they have questions or concerns—at a fair price. Financial and regulatory predictability come into play when merchants trust that their business partner ensures they will get paid and remain compliant. Acceptance ubiquity stems from merchants’ confidence that they

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won't be forced to turn away customers for lack of payment acceptance capability. Finally, marketing opportunity means merchants are confident that the "packaged solution" gives them opportunities to expand their sales.

"I don't think there are any proverbial 'silver bullets' that, in and of themselves, represent durable (competitive) advantage," Schatz says. "Rather...many of the above-mentioned elements, taken together, will get you there."

On the service side, taking relationships with merchants to a new level is one viable element of durable advantage. McLean, Virginia-based Sage Payment Solutions encourages its agents and direct sales representatives to give merchants their cell phone numbers so customers feel that they have maximum accessibility. Sales representatives are also trained to ask merchants, during the ISO/MSP selection process, whether the company is in "first place" among all contenders, says President Bob Bennett. "If the answer is positive, they say, 'Great. If that changes before you make your decision, would you do me the favor of letting me know before the decision is made, so I can have a better chance to gain your business?'" They also ask to be informed if they're falling out of favor once the merchant has signed on."

Setting and exceeding appropriate expectations and operating under a system of full disclosure are part of the overall relationship package. "The minute you exceed an expectation—for example, getting a merchant up-and-running in two days when it takes another ISO/MSP a week, or come straight out with the truth about such matters as price increases—you cultivate trust," Bennett adds. "That's a big piece of durable advantage."

Innovative Merchant Solutions has avoided automated call answering and routing systems in favor of employing "merchant experts" who answer its telephones around the clock, 365 days a year, and within 10 seconds of receipt. Experts are trained to answer all questions pertaining to bankcard processing activity, risk management, terminal procedures, and software, and to assist merchants in improving their own businesses by educating them about processing-related matters like reducing chargebacks. Accounts are usually approved within 24 hours.

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Value-added services and programs also aid in carving out durable advantage. Sage Payment Solutions represents itself as the only payment processor that handles merchant account origination along with payment processing. And unlike many of its competitors, Innovative Merchant Solutions maintains liberal approval guidelines that enable it to offer non-cash processing

solutions for virtually any business type, including e-commerce, wholesale entities, restaurants, and retail establishments. All merchant accounts are reviewed for potential risk situations, including credit card fraud, and assistance with retrievals and chargebacks is available. The ISO now touts its Innovative Club (iClub) membership program for small- and medium-size merchants. iClub services include discounted supplies, complimentary equipment replacement, free education grants, equipment upgrade discounts, discounts for computers and accessories, overnight delivery services, and reduced rates on car rentals. Meanwhile, Payment Alliance International (PAI), a Louisville, Kentucky-based ISO, features a cash-advance program for qualified merchants.

At Atlanta-based acquirer Elavon, some of the company's ISOs have added proactive rate reviews to their roster of merchant services as part of a durable advantage, says David McAlhaney, senior vice president, MSP channel. "These days especially, merchants are gravitating toward service providers that not only recognize their need to control expenses, but are competing in part through some type of service that lets this happen," McAlhaney states.



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Whiz Bang Technology

Not surprisingly, technology plays a significant role as programs and services in creating viable durable advantage. For some ISOs/MSPs, leveraging technology for durable advantage entails promoting one platform through which merchants can process all credit, debit, and gift card transactions, as well as perform electronic check and dynamic currency conversion.

Certain players, such as Sage, go a step further and offer payment processing solutions that integrate with other systems, such as accounting. “Our retention rate on merchants to which we provide integrated solutions is double our retention rate for which our reach is limited to payment processing,” Bennett says.

For other players, the focus also is on applications that let merchants flourish in their respective segments. This strategy is particularly effective, explains Kaplan, because it often dovetails with being first to market with a particular innovation, which paves the way for even more durable advantage. “By the time the others catch up, the company that was first to market is on to the next conquest and therefore stays ahead,” he says.

Innovative Merchant Solutions currently is developing solutions geared specifically to the health-care market. Targeted mobile payment processing solutions for independent contractors, such as landscapers, are also in the works. In a related vein, Elavon is delving deeply into payment processing applications its MSPs can sell into the hospitality and health-care sectors. National Processing Co. features the e-government suite of credit card processing applications for municipal governments, state agencies, and municipal tax collectors. It includes a Web-based payment system that requires no programming and allows consumers to initiate transactions around the clock, plus Internet payment solutions that incorporate electronic check payment, automatic transaction settlement, and online reporting.

PAI, which counts hospitality as one of its key vertical markets, has in its arsenal a software tool dubbed HospitalityIQ. The tool is designed to enable analysis by exception and to afford multi-unit restaurant operators a way to decipher and analyze data gathered at the store level. It aggregates, processes, and visualizes data from

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—Mark Schatz, executive vice president, National Processing Co.

multiple sources across any platform, enabling decision makers to quickly identify and address trends.

Roadblocks and Challenges

While a durable advantage yields benefits to ISOs/MSPs in the form of reduced attrition and increased profits, it also presents several challenges. Devoting the necessary time and resources to not only develop that advantage in the first place, but to maintain it, ranks at the top of the list because of a natural inclination to prioritize selling over all other activities.

Bennett points out that ISOs/MSPs tend to be “hunters” who ferret out as many new accounts as possible, board them, and move on to the next territory. For a durable advantage to take hold and flourish, Bennett says, ISOs must become “farmers”—reining in their urge to continue adding to their portfolios and instead devoting their efforts to “seeding and reaping” their existing customer bases and territories with new offerings.

“There is a lot of emphasis on spending money today, for today,” agrees Kaplan. “However, this is a very short-sighted approach that impedes the growth path. To have a durable advantage, it may be necessary to spend x number of dollars on the present, y number of dollars on tomorrow, and bank the rest, rather than to lay out a single sum for the immediate moment.”

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Just as significantly, ISOs/MSPs whose durable advantage centers partially or entirely on maintaining a specialized account portfolio will, no matter how strong their

business in a given vertical, occasionally be tempted to accept accounts from other markets. Don’t do it, say experts. Working outside one’s area, or areas, of expertise is a far less effective use of time and resources than moving ahead with distinctive products and offerings targeted to a specific merchant sector.

Other roadblocks to durable advantage surface when portfolio segmentation comes into play. Recognizing the nuances of a specific niche is one matter. Attracting and retaining appropriate talent with an intimate understanding of the core business opportunities and challenges of the respective niche—and how payment acceptance solutions can be packaged to positively impact them—is an entirely different proposition.

“Attracting and retaining the right talent is truly an art that doesn’t necessarily lend itself to any specific recipe or strategy for success,” Schatz says. “That said, I would say that plugging into the right industry consultants, utilizing proven talent search firms, and aggressively networking are key on the front end. On the retention side, fundamental alignment between the key talent and the company is critical in terms of culture, incentive compensation, and strategy. So, too, is full empowerment of that talent. It doesn’t make sense to acquire the race horse and then keep it locked up in the barn.”

At times, the challenges inherent in finding and nurturing durable advantage may seem daunting, but grappling with them—and moving on—is worth the tradeoff. “A durable advantage is what separates you from everyone else,” Lang concludes. “In the long run, it’s usually the reason you are in business, rather than out of it.” **TT**

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