

WHERE THE ISOs ARE

Although some cities host more ISOs than others due to acquiring activity, the most common reason an ISO operates from a certain city? It's home.

By Bryan Ochalla

KEY NOTES

- ▶▶ At one point, an ISO's geography was somewhat defined by its field sales force. Today, many ISOs hire sales agents wherever they are, creating agent networks that are far flung from their headquarters.
- ▶▶ The payments industry's entrepreneurial streak has spawned a few pockets of ISO activity in specific cities and states throughout the United States, such as Dallas, Atlanta, and Nashville.
- ▶▶ Some ISOs may set up shop in cities that are home to a number of payments companies where they see a large pool of potential employees with a wide range of experience in the industry.

Asked why his independent sales organization, America One Merchant Services, is based in Sunnyvale, California, Co-founder and President/CEO David McMackin says, "I'm a California boy. What can I say?"

Other than that, there aren't many benefits to being based in the nation's most populous state. "It's expensive here, and there aren't any legal or tax benefits that I can think of. I might be able to make 20 percent more money somewhere else, but what it really comes down to for me is that California is home."

Ask the same question of other ISO owners and you're sure to hear any number of answers—though it's probably safe to assume many share McMackin's "home sweet home" mentality.

For example, Sam Caine, president of Frisco, Texas-based Card Payment Services Inc., the boutique ISO he founded 1999, worked for several other firms, including Peachtree Bankcard, PMT Services, and NOVA Corp. (after the Atlanta-based processor acquired PMT Services in 1998).

That's when Caine was introduced to his home state. "I was sent to Dallas to run one of NOVA's regional offices" when an entrepreneurial opportunity quickly presented itself, he says. After NOVA acquired PMT Services, "they intentionally let a lot of the smaller sales channels and relationships fall by the wayside," Caine remembers. "My direct supervisor at the time and I saw the opportunity and decided to do something about it, which led to me starting the ISO.

"Once we got acclimated and settled, I didn't want to leave," Caine says of Texas. "I like it here and I'm tired of being relocated by employers, so this is it."

Such comments don't surprise Marc Abbey, managing partner at First Annapolis Consulting in Linthicum, Maryland. Abbey recently



researched where U.S.-based ISOs are headquartered for an article that ran in the June 2008 issue of First Annapolis' *Navigator* newsletter, only to find that most are based where they are because of "lifestyle preferences."

Agents Everywhere

The First Annapolis research found that nearly half of ISOs registered in the United States are headquartered in California (19%), Florida (9%), Texas (8%), Nevada (6%), or New York (6%). The other 52 percent are spread among the remaining 45 states.

"Headquarters location is informative for the sales, relationship management, and servicing efforts of ISO aggregators' calling efforts," Abbey wrote in the *Navigator*. "On the other hand, most modern ISOs, either due to dispersed sales agent networks or nationally deployed telesales, have a national or super-regional scope to their sales and marketing organizations. So headquarters location is not a proxy for sales channel location or merchant portfolio concentration, and in fact, some states have ISO headquarters disproportionate to their underlying volume."

In fact, when looking at the numbers from a different angle—i.e., a rough ratio of the number of ISO headquarters per billion in sales volume—the most popular places for ISOs are Nevada (which Abbey found to have three times the number of ISOs relative to its volume than any other state), Kentucky, Illinois, and then Utah.

"It was interesting to see that the states that generate the most

ISOs tend to be the states with the most acquiring activity, with some exceptions," Abbey says. "I thought there could be some tactical reasons ISOs are headquartered where they are, but basically it seems as though where an ISO is headquartered has no bearing on what the market scope of that ISO is."

An ISO's headquarters location may have been tactical in the past, "but that's no longer true—because of the distribution strategies of ISOs, which have changed a great deal over the years," explains Abbey. "At one point, an ISO's geography was defined, at least somewhat, by its field sales force," he says. "Today, many ISOs hire sales agents wherever they are, creating agent networks that are far flung from their headquarters. Other ISOs use direct marketing or telesales, which also are geographically flexible."

What you end up with is a large number of ISOs that, for all intents and purposes, are national in scope, Abbey says. "Where they are headquartered is not as good a predictor of their market focus as it was, say, 15 years ago."

Ninety percent of AmericaOne Merchant Services' sales staff reside outside the company's home base in California. "The people who are making things happen for ISOs aren't hanging around home base—they're all over the country, drumming up business and bringing it home," says McMackin.

"We're just as likely to bring in an account from Seattle as we are from Fort Worth," adds Caine. "We could be based anywhere, really, though I think if we were a higher-volume shop, it might be advantageous to be centrally located. But since we're not, there's

no reason to move. We decided a while ago that we wanted to stay here and that's what we're going to do. I have no desire to go anywhere else."

Nixed Theories

The theory that tactics play a role in where ISOs set up shop wasn't the only hypothesis to fall short. "We came up with a bunch of theories about what we might find while looking at the data, but in the end most of them didn't pan out," says Abbey.

For instance, "we thought we'd see an abundance of ISOs in markets where bank acquirers have been schizophrenic, for lack of a better word, over the years," he says, pointing to states such as Illinois and Texas. "In the 1980s, all the banks failed in Texas—right around the time the credit card industry was forming. As a result, we thought Texas would be over-represented by ISOs."

Abbey and his crew came up with a similar theory involving Illinois—Chicago in particular. The city "doesn't have any really strong commercial banks in the acquiring business," Abbey says, "so we thought we would see disproportionate ISO activity there."

Parts of New England also were singled out by Abbey and his staff "because of bank instability in the 1980s and early 1990s. A lot of the banks there are not strong acquirers, and we thought we would see a lot of ISOs that had taken advantage of that situation."

Seed Sowing

That's not to say the results of Abbey's research were completely cut-and-dried. "We noticed a few quirks," he says. "Kentucky is a good example. There are a lot of ISOs in Kentucky, probably because the state is home to a lot of big acquirers that have spawned competitors across the street."

Caine suggests the same may be true of Texas—or at least Dallas-Fort Worth. "This area is a mini-hub for bankcard," he says. "I'm sure if you asked all the ISOs in this city why they're there, you'd be able to trace the roots of about 80 percent of them back to three or four other companies in the area."

Similar situations can be found in Atlanta and Nashville, Caine suggests. "The barriers of entry to starting an ISO are so low," he says. Combine that with a city or state that has a large processor or acquirer—or even a large ISO—and "once their employees are exposed to the opportunities that exist on the ISO side of the industry, some of them are going to leave and start an ISO," he adds.

"I've seen a lot of that over the years," Caine says. When Caine worked for NOVA, one of his jobs was to recruit ISOs, "and I certainly heard similar stories when I would meet with and talk to the owners of many ISOs about how they got started."

Caine equates the effect to the planting of seeds across the plains. "The entrepreneurial streak that runs this industry has caused these little pockets of ISO activity in specific cities and states throughout the U.S. One of the advantages of being based here is that I have a readily available pool of potential employees who have a wide range of experience in this industry, since so many other payments companies are based here as well," Caine says.

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they know they'll be able to draw from a pool of experienced people there," adds McMackin, though that's not the case for his business. "Finding experienced people in Northern California can be pretty difficult" because there aren't many other payments companies nearby. "We're not able to pull from a large, experienced pool of people who have worked in the industry for a number of years like some of our competitors in other parts of the state and country."

Although U.S. Merchant Systems has called Fremont, California, home since it was founded in 1992, President/COO Matt Nern isn't so sure that will be the case forever.

"It's a fantastic success story," Nern says of the company he's led for the past two years. U.S. Merchant Systems "literally grew from the ground up—from three people with \$8,000 among them to a multimillion dollar company." And while Fremont was a great launching pad, Nern says he often wonders whether it's the best place to run a business.

"It's no secret that California is very unfriendly to business owners," he says, pointing to the state's sky-high income-tax and sales-tax rates and ever-changing labor laws. "At the end of the day, though, you have to look at other variables, too, such as the good weather," he says. Also, "people can fly in from all over the country. And it's a great place to wine and dine people."

For now, Nern says the positives of being based in California outweigh the negatives, though he admits he's keeping his eyes open. "I think anyone who is doing their job has to look at the options before them," he says. "Do I want to stay in California forever? Ideally, yes, for all of the reasons I've already stated. If the business environment makes it difficult for us to draw a decent profit and moving the company to another state would alleviate that problem, though, I have to at least entertain the idea."

In the end, none of the theories Abbey and his staff tossed around was proven true—this time. "We still think some of our theories have merit, such as the theory that certain markets tend to have more ISOs because the bank acquirers are historically weak in those areas, but they didn't manifest themselves in the headquarters locations of ISOs." **TT**

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