

KEY NOTES

- ▶▶ It's time to show customers some love, say experts. Reach out, visit them, look for ways to help, and follow up.
- ▶▶ Product bonding—tethering merchants with products and services they value and can't get anywhere else—is another proven method.
- ▶▶ As credit standards are tightened, having a strong risk-management program becomes an important aid to retention.

Survival Tactics

Experts suggest strategies to stem recessionary losses and keep merchants on the books

By Richard H. Gamble

Increase sales and reduce attrition: This tried-and-true formula has led many ISOs to prosperity over the years. Unfortunately, the current economic crisis is putting that wisdom—and the ISOs that heed it—to the test.

In today's financial climate, ISOs should take nothing for granted. Many merchants are so anxious about the economy that they have stopped making all but the most necessary decisions, which slows down attrition, reports Joyce Cook, president and CEO of International CyberTrans, based in Nashville. Nevertheless, her ISO is taking a largely psychological approach to retention by making calls and sending personal notes to existing customers in an effort to make them feel appreciated. The sales staff also is making a soft sell of products or services that the merchant is not currently using.

"It's working," Cook says. "The only merchants we're losing are the ones that are closing their doors."

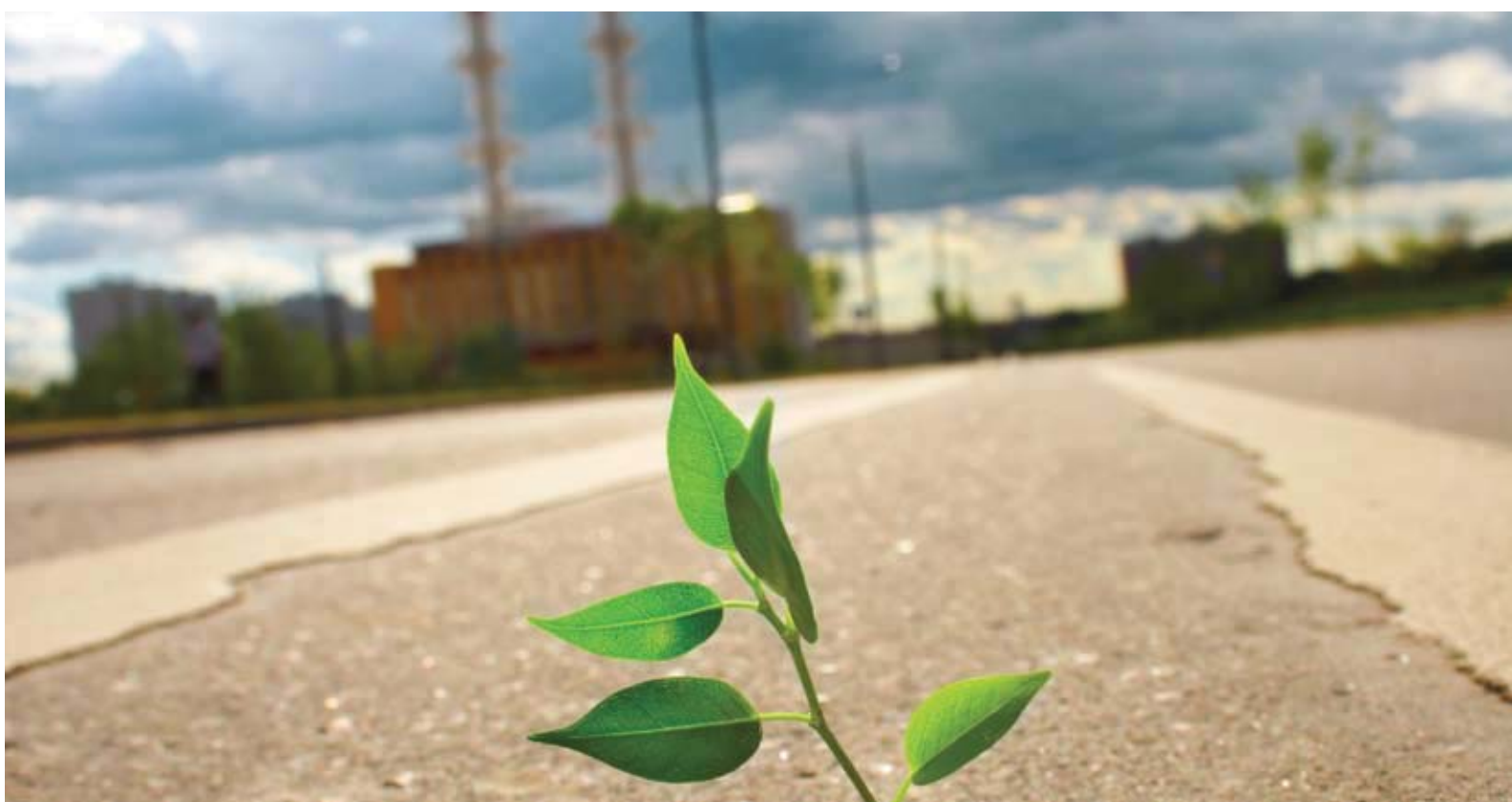
Other experts agree. "There has never been a more important time to show your customers some love," says consultant Les

Reidl, president of Atlanta-based Speer & Associates. "Reach out. Call them. Visit them. Find out what they need, and look for ways to help them. Then follow up. We all know we should do this, but nobody does it as well as they should. ISOs have an opportunity to rise above the herd. If you're not talking to your customers now, you can be sure your competitors are," he says. "Merchants are facing tough times and looking for ways to cut costs or improve services."

Simply being ethical also helps prevent attrition. "Hire and train knowledgeable people. Make sure your sales reps are truthful and that they tell the merchants all the relevant facts," suggests Deana Rich, a consultant at Strawhecker Associates in Kansas City, Missouri. "And if you have high-margin accounts, you might think about reducing your margins to increase your chances of holding onto that merchant."

Product Bonding

While emotional bonding is important for the ISO-merchant relationship, another tested way to control attrition is product



Risk mitigation by underwriters “takes money from the merchants’ pockets at a time when they need it most.” They don’t want to put up reserves, so they’re shopping frantically for an underwriter that won’t require it. They also are calling back ISOs that may have called on them in the past. —Kurt Schaeffer, senior vice president, Global Payments

bonding—tethering merchants with products and services they value and can’t get anywhere else—notes consultant Paul Martaus, president of Martaus & Associates of Mountain Home, Arkansas. It’s not a new idea, but it works. If a merchant has a lot of gift cards outstanding that can be processed by the current ISO/processor but not by a new one, he observes, that merchant is not going to move.

While a merchant that is going out of business is attrition you can’t control, Greg Cohen, president of Moneris Solutions in Chicago says. “We do all we can to hang onto the others, we’ve taken resources away from new sales and assigned them to retention. We’re proactively reaching out to our high-volume and high-margin customers. We’re encouraging them to add low-cost products like gift cards that are ‘sticky’ for the ISO or acquirer. In times like these, we all need to focus on retention and risk management.”

“A number of products—including vir-

tual terminals, free trials of check services, cash advances, PIN debits, even QuickBooks for accounting—can give you a reason to talk with your merchants,” Cohen says. “If you’re tied to a bank, you can offer depository products.”

While it’s hard for an ISO to prevent business failures, the situation is not entirely hopeless. ISOs can offer a failing merchant a cash advance service if it’s on the menu of services supported by the processor, Martaus suggests. That allows merchants to get paid in advance for receivables based on sales already made, and it could provide the cash flow the merchant needs to meet payroll or buy new inventory to stay in business.

ISOs also can offer a merchant new ways to make revenue by selling such products as gift cards, suggests Donna Embry, senior vice president for product development at Payment Alliance International Inc. in Louisville, Kentucky. A closed-loop gift card that can be used only at that merchant’s

stores means cash in advance for future sales, a sure cash-flow booster. It also means future sales or spoilage—money the merchant gets to keep if the card is never used.

And merchants can help bolster their shrinking sales by adding a rack of “J” hooks with gift cards for other retail chains, Embry notes. “We’re pushing this as a way to replace revenue that is being lost as other sales decline,” she says.

Mitigating Risk

Being popular with their merchants is important for ISOs, but some distinctly unpopular factors are creating merchant dissatisfaction and driving attrition. For example, declining sales volume means many merchants pose increased risk to the acquiring banks, processors, and ISOs that underwrite them, and the underwriters are tightening standards as a result.

Some acquirers are evaluating their portfolios and looking with particular

suspicion on industries linked to real estate—heating and plumbing contractors, furniture stores, flooring vendors, and construction firms, for example—just as earlier in the year, they reevaluated merchants that would be touched by high fuel prices, reports Kurt Schaeffer, senior vice president for operations at Atlanta-based Global Payments. These merchants share one troubling characteristic: They make sales now for delivery in the future and therefore pose a risk for chargebacks if they fail before they can deliver their products or services.

“These may have been good merchants when they were first underwritten, ones for which you wouldn’t require reserves,” Schaeffer says, “but in today’s economy, they may not look so good.”

A common response when the merchant looks risky is to require or increase reserves or delay payment, a distinctly unpopular move. Risk mitigation by underwriters “takes money from the merchants’

pockets at a time when they need it most,” Schaeffer notes. They don’t want to put up reserves, so they’re shopping frantically for an underwriter that won’t require it. They also are calling back ISOs that may have called on them in the past. Although the new ISOs have a chance to offset attrition by signing up these new customers, they also take on a risky merchant that another underwriter has already deemed unacceptable.

If you learn that the underwriter is going to hold funds or increase reserves, tell that merchant what will happen, Rich suggests. “Try to put a positive face on it. Tell the merchant that this is also protecting them from losses due to chargebacks.”

Turnover also will increase due to the sale of portfolios as ISOs get into trouble or simply get tired of trying to swim against the current. “Any time a retailer is asked to convert to a new platform, there’s increased attrition,” Martaus notes. “Some platform conversions work well, and some

don’t. Acquirers have learned that when they buy a portfolio and go to convert merchants, attrition can be as high as 50 percent. The more portfolios are sold, the more churn there will be in the market, and the more opportunities for ISOs to pick up new merchants,” he points out.

As credit standards are tightened, having a strong risk-management program becomes an important aid to retention, Reidl says. “The providers—ISOs, processors, or acquiring banks—with weak risk-management systems have to allow for a wide margin of error and are most likely to pull back sooner and more radically. The providers with strong risk-management systems can manage their risk with confidence and know just how much cushion they really need, so they can be more competitive in this marketplace.” **TT**

Richard H. Gamble is a contributing writer to Transaction Trends. Reach him at gamble10@earthlink.net.

We're Looking
for the Stars...

ETA is accepting nominations
for its annual Star Awards.

Visit www.electran.org today
to view a description of the awards
and criteria and to nominate your
deserving colleagues



Award recipients will be announced at the
President's Dinner, Tuesday, April 21, 2009,
in conjunction with the ETA Annual Meeting and Expo.



www.electran.org