



BOC, POP on a Roll

Retailers embrace multiple electronic conversion methods

By Julie Ritzer Ross

It's no secret that check usage at the retail point-of-sale will continue to decline, accounting for just 4 percent of transactions in 2010, according to most estimates. Yet two methods of converting paper checks into electronic ACH transactions—point-of-purchase conversion, or POP, and back-office conversion, known as BOC—continue to attract attention, with some retailers and experts seeing greater potential for the former, and others for the latter.

POP, introduced in 1999 by Herndon, Virginia-based NACHA-The Electronic Payments Association, requires paper checks to be converted right at the checkout counter, then immediately handed back to customers. By contrast, BOC, which NACHA launched in March of 2007, permits paper checks to be collected at the point-of-sale and converted later. Retailers practicing BOC need a single image scanner for each store and can settle documents not eligible for ACH conversion as digital check images, image-replacement documents, or paper checks.

"POP did not take off as we expected; hence, our development of BOC," says Ian Macoy, NACHA's managing director of networks. "Both have their benefits—namely, decreased clearance costs, enhanced loss avoidance, accelerated knowledge of returns, and faster reporting of bad items to the proper authorities. We see adoption as a matter of preference, really."

BOC's Inroads

The roster of merchants that now convert checks via BOC includes retail heavy-hitters such as Walgreens Inc., Target Corp., and Recreational Equipment Inc. (REI). Walgreens adopted BOC rather than POP largely to cater to its many check-writing elderly customers.

"We didn't want our cashiers to have to become experts in what's going to happen to the check and explain



that to the grandma who's confused," Michelle Vandiver, manager of bank reconciliation at Walgreens, said at a recent conference.

As was the case with Walgreens' previously utilized check-authorization services, store associates scan checks through in-lane magnetic ink character recognition (MICR) readers. The following morning, the retailer sends electronic files of scanned checks to the POS and imaging network operated by Solutran, its merchant service processor. Eligible checks are processed as BOC transactions, with store staff later sending bags of paper checks to Solutran for further processing and settlement. The MSP scans and processes all remaining ACH-ineligible checks as digital check images.

Approximately 3,300 of the 3,700 store locations that use Solutran's BOC processing services fly the Walgreens flag. "Walgreens will be the big milestone for BOC because it's a proof of concept," says Barry Nordstrand, Solutran president and CEO. He says the higher the percentage of checks ineligible for conversion that retailers accept, the greater the likelihood they will select BOC instead of POP.

Despite apparent inroads on the BOC front, some experts consider it a minor league e-check conversion method that

will continue to have lesser impact than POP on retailers' paper check volumes.

"BOC is no category killer," asserts Bob Meara, a senior analyst at Boston-based research firm Celent LLC. "The thinking was that it would reduce the cost and complexity of electronic check conversion, compared with POP. I was one of the many who subscribed to the theory that it would be a slam dunk and was proven wrong. In fact, we expect that by 2010, POP will account for 75 percent of retail electronic check volume."

Meara notes that although the volume of BOC transactions grew to 9 million in the second quarter of 2008—the last period for which figures were available at presstime—POP volume reached 122.4 million transactions, up from 115.3 million in the first quarter of the year. Celent's research indicates that BOC will likely never take more than a 30 percent share of all merchant e-check volume away from POP.

Other experts agree. "BOC was touted as a cure for everything that was wrong with POP, but as it has come to the forefront, what we're seeing, ironically, is a POP resurgence," says Mark Wallin, general manager, TeleCheck and ACH Services, First Data Corp. Of the 2 million checks processed by TeleCheck daily, Wallin says 70 percent are handled as POP transactions through its Electronic Check Acceptance service.

Hopping on POP

Some perceived problems with POP limited the bulk of adoption to smaller retailers. In particular, larger retailers with multiple checkout lanes in each store worried that MICR readers could misread check information. Many, too, were concerned employees might scan and return to customers documents ineligible for ACH conversion, such as some business checks, traveler's checks, government aid vouchers, and money

orders. They also feared cashiers would be unable to explain the new check process to customers.

Consequently, POP primarily caught on only with smaller retailers. With fewer stores and few checkout lanes, they could afford to deploy check image scanners that cost \$500 to \$1,500 apiece and offer backup protection in the case of MICR misreads and/or cashier errors.

Many retailers, however, are conceding not only that these concerns are unfounded, but that opting for POP makes sense from the standpoint of leveraging their existing equipment. Two thirds of merchants recently surveyed by Celent already utilize check verification and guarantee services and, therefore, can capture check MICR lines at the point-of-sale. Seventy-five percent of these operations have POS printers.

"In essence, the 'BOC-costs-less' argument doesn't wash because half of merchants already have the equipment in place to perform POP," Meara says.

Adoption of POP by high-profile retailers also is a catalyst for its growth. Wal-Mart Stores Inc. now executes POP e-check conversion in all of its more than 4,000 U.S. stores. Office Depot Inc. and grocery supercenter operator Meijer Inc. have jumped on the POP bandwagon as well.

Although these and other merchants declined to elaborate on the rationale behind their move to POP, many reportedly favor it, at least in part, because it requires employees to return paper checks to customers. This procedure prevents checks from being mishandled, lost, or stolen prior to conversion and destruction.

For some retailers, a desire to simplify day-to-day operations and maintain check processing efficiencies, regardless of clerks' transaction-handling skills, makes POP attractive. For example, at Abercrombie & Fitch, the average age of store clerks is 20 years and their average length of employment is six months, according to Dan Cutright, Abercrombie's senior manager of sales auditing. "As such, we try to keep

store operations as simple as possible, and keeping checks out of stores by using POP conversion helps," he claims.

Prompts on monitors installed at the point-of-sale clarify procedures for inserting checks into MICR readers and specify what clerks should tell customers about POP transactions. Most shoppers who pay by check rather than cash or a credit or debit card don't mind having their checks converted and returned to them, Cutright says.

"Clearly, retailers have different needs, and exactly how POP and BOC adoption will shake out moving forward is difficult to predict," NACHA's Macoy concludes. "The good news is that there appears to be plenty of call for both methods, and it appears that merchant and MSP models for supporting each type of conversion are firmly in place." **TT**

Julie Ritzer Ross is a contributing writer to Transaction Trends. Reach her at julieros@aol.com.



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