

Global

Growth and profit can be found in cross-border acquiring, but you have to dig for them

By Richard H. Gamble

There's definitely gold in global acquiring, but there's no gold rush. Merchant demand is real. A large software company that was selling its products globally in many countries approached First Data recently as a potential global acquirer, reports Souheil Badran, senior vice president and division manager for the e-commerce group. "They were having too many reporting problems. They were concerned about managing their foreign exchange exposure. They wanted to see if we could consolidate it into a single relationship with us to simplify their card payments," he explains. "And they wanted one acquirer to support plans to expand into the Asia-Pacific and EMEA [Europe, Middle East, and Africa] regions. There was a substantial payoff for their cash management and treasury operations."

And global acquiring offers growth. While the economy has becalmed many domestic acquirers and ISOs, "our business has taken off like a hockey-stick graph," reports Carrie Bardeen Hometh, senior vice president for sales at Payvision, an Amsterdam-based international acquirer and multiple currency payment processor. "I'm

hiring a new employee a week to deal with our growth. When online merchants globalize and let shoppers pay in their own currency, their sales increase. The days are gone when you can force customers to pay in U.S. dollars."

And there is profit. Because of the complexity of global acquiring, the field is less competitive and prices are higher, Hometh says. "Our portfolio averages a profit margin of 120 basis points, which is considerably higher than the thin margins one finds in a U.S. domestic portfolio," due to intense domestic competition and simpler processing, she notes.

Even hard economic times are giving global acquirers a boost. "We found that in better times, the largest merchants wanted to do it all themselves, but now they are much more inclined to outsource, which has played to our advantage," Badran reports. "It's really helped us build our pipeline. When the economy recovers, we'll be well positioned to take advantage of it."

Because global acquiring aligns with the strong trend to consolidate operations to cut costs and improve reporting, global acquirers have something powerful to sell. When a merchant

Gold

A large, stylized image of a hand holding a globe. The globe is rendered in a golden-brown color with a grid of latitude and longitude lines. The word 'Gold' is written in a large, bold, black sans-serif font across the top of the globe. The background is a solid, light golden-brown color.

KEY NOTES

- ▶▶ Accommodating local differences in international markets doesn't create huge impediments, but it does mean more work and more complex and pricey terminals and applications.
- ▶▶ The U.S. acquirers that have had the most success abroad are those that have hired and trained local people.
- ▶▶ As projects like the Single European Payment Area (SEPA) move forward, a more efficient payments market will emerge in Europe.

converts from local acquirers to a global acquirer, “it is a huge value proposition,” says Stuart C. Harvey Jr., CEO of Elavon’s Global Acquiring Solutions in Atlanta. They might have had dozens of relationships from country to country and dozens of contracts to negotiate and manage. With global acquirers in the market now, they have a choice to consolidate all that business to one acquirer, which qualifies them for lower prices and clearer, more comprehensive reporting. It really helps them simplify a part of their business operations, he notes. And lower prices are a key selling point. “With consolidated volume, they can get better deals, typically on an interchange-plus basis.”

The progress of global acquiring is also being aided by regulatory changes. Before the Payment Services Directive, local debit schemes and the Visa and MasterCard rules made it difficult for a third party to come into multiple countries, notes Jeff Baker, chief development and strategy of-

ficer at Global Payments. But now competition is working and protectionism is waning, he says. Projects like the Single European Payment Area (SEPA) are moving, albeit more slowly than anticipated, to “create an efficient payments market in Europe,” he reports.

Major Challenges

That’s the good news. The bad news is that global acquiring is a very complicated business, doing it right can be expensive, and the chances of failure are real. It’s challenging even if you are a mega acquirer/processor. While its software merchant was able to consolidate with one acquirer, First Data had to do some heavy lifting. “In each country, you need to sign up a local bank to get the BIN sponsorship,” Badran notes. “Getting all the BIN sponsorships is critical to success in global acquiring, and it’s also the most difficult.”

Local banks outside the U.S. are in-

clined at first to view First Data or any global acquirer as competition and prefer to keep them out of their market to protect their own acquiring activity. “You have to sell it to the local banks as something that will bring more commercial activity to their country and actually increase their business down the road,” Badran explains.

What may look like a unified, consolidated global acquiring operation on the surface is likely to be a global merchant interface that covers a patchwork quilt of domestic and regional activities. “The transaction may be acquired globally, but the hardware has to be delivered locally and has to operate according to local standards,” says Stuart Taylor, vice president for global solutions at Hypercom Corp., based in Scottsdale, Arizona. And most global processors don’t use a single global host processor, but rather a variety of local and regional processors, which means that the software has to reflect

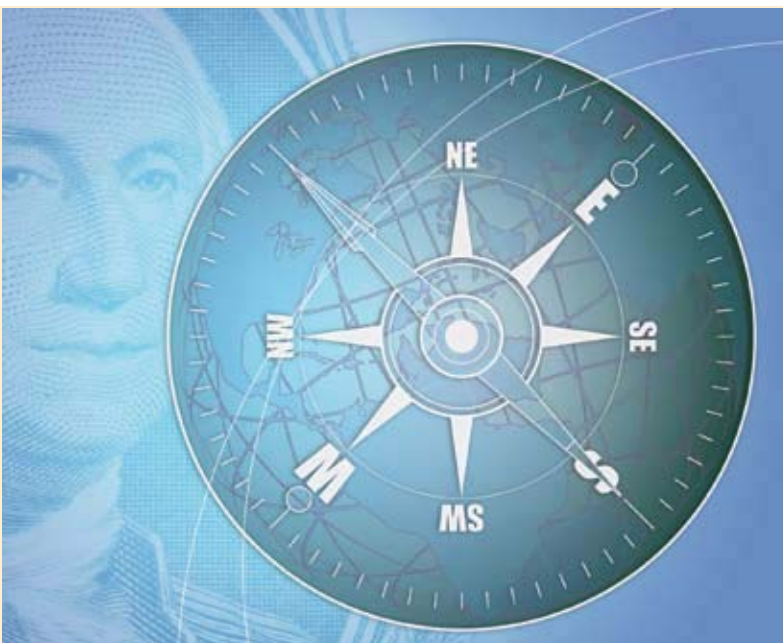
Where the **Action** Is

“Global acquiring” may be something of an overstatement. In many cases, it means the U.S., Europe, and Canada. “Restrictions are coming down in Europe,” notes Souheil Badran, senior vice president and division manager for the e-commerce group at First Data Corp. The Payment Services Directive is scheduled to be effective in November, and that could allow First Data to become the acquirer for a multinational merchant across many national borders in Europe, which should allow the merchant to leverage volume and get better prices, he explains.

The hardest countries to include in a global acquiring network are the BRIC countries: Brazil, Russia, India, and China, Badran says. “We face difficult pricing issues there. There is often one bank that is both the largest issuer and the largest acquirer and really dominates that market.” Outside North America, Europe is the most appealing.

Sometimes, global moves are the execution of a grand strategy. And sometimes they are seizing particular opportunities, like the many merchant portfolios that have been offered for sale in the U.K. over the past five years, notes Marc Abbey, managing partner at First Annapolis Consulting in Linthicum, Maryland.

Merchants can be a potent ally. Merchants in Belgium that are caught in a monopoly-like situation are welcoming global acquirers so that they have more choices and a better chance to get lower prices, reports Stuart Taylor, vice president for global



solutions at Hypercom Corp., based in Scottsdale, Arizona.

Consumer preferences vary widely across the globe. The U.S. is (or was until recently) credit happy and uses credit cards liberally, explains Stuart Harvey, CEO of Elavon’s Global Acquiring Solutions, Atlanta. In Germany there’s a stigma about being in debt and 85 percent of the electronic transactions are debits. Developing countries still rely heavily on cash and even barter, and only the wealthy have access to credit, but that is changing with the rise of a middle class, he notes.

local differences, he points out. Accommodating local differences doesn't create huge impediments, but it does mean that "there is work to be done, and that terminals and software applications have to be more complex and require more memory," he notes.

And the rules do remain an impediment. "Visa and MasterCard let you acquire a brick-and-mortar merchant in the U.K. with a U.K. license, but you would need a U.S. license to acquire that same brick-and-mortar merchant in the U.S.," Baker notes. "As an independent processor, we're limited to where we can acquire by whether we have a sponsor bank in a particular country," he explains. "Those are restrictions that limit the marketplace today."

Visa and MasterCard had put geographical limits in place when they were associations trying to protect member banks, explains Greg Cohen, president of Moneris Solutions in Chicago, but now that they are public corporations, the rules will come down over time, as long as acquirers are well capitalized, he predicts.

Complex Technology

Getting the right licenses is fairly straightforward, but the technology is challenging, Hometh notes. "Each country has its payment types. That adds to the complexity of the technology and the contracts that are needed to get access to the country-specific alternative payments" to get payments to merchants. "The technology requires a hub to deliver transactions to different locations to be cleared and then aggregate it back as a single set of reports that are geared to what the merchant needs," she explains. "It's not illegal anymore to acquire across borders, but it's still incredibly complex," she continues. "It takes the right combination of technology and contracts to make it work." But for card-not-present merchants, this technology "is terribly needed" if they're going to succeed in global commerce, she adds.

Interchange adds to the complications, Hometh says. "Interchange functions slightly differently for global transactions than it does for a U.S. merchant accepting a U.S.-issued card," she explains.

A Role for ISOs in the Global Market?

If global acquiring is the great land of opportunity, where does that leave U.S. ISOs that are being pinched by the recession and have long struggled with saturation marketing and price compression?

The mega-acquirers and processors may be going global, but it's not easy for U.S. ISOs to follow them, notes Marc Abbey, managing partner at First Annapolis Consulting. "They can have an impact, especially in Canada, but they have to contend with established players. The ISO model may have some advantages, but it won't be easy to gain penetration."

The familiar ISO model is rarely found outside the U.S., says Jeff Baker, chief development and strategy officer at Global Payments, Atlanta. "Some countries have external sales forces, and we use them in those countries, but those salespeople are more narrowly focused on sales, whereas U.S. ISOs do more with services. The rights and obligations of the external salespeople are not the same."

First Data does not make extensive use of ISOs. "You don't see U.S. ISOs branching out globally very often," says Souheil Badran, senior vice president and division manager for the e-commerce group. Instead, they'll refer business to local ISOs and take a referral fee. "They sell leads when they get them. They're trying to drive up a little top-line revenue without making a large investment abroad," he explains.

Cultural issues remain the biggest challenge for a global-minded ISO, says Carrie Bardeen Hometh, senior vice president for sales at Payvision, based in Amsterdam. Expansion is too new for anyone to say just what models work, and the small supply of ISO portfolios for sale outside the U.S. limits expansion by acquisition. ISOs have been predominantly a U.S. phenomenon so far, she notes, and the U.S. model doesn't duplicate well on a global scale. Some ISOs send U.S. veterans over to start an ISO business in a target country, but that seems not to work very well unless the veterans know that country and its culture, she says. ISOs that hire in-country staffs and give them U.S. training get the right blend of ISO expertise and sensitivity to local culture, she points out.

"It depends on whether the transaction is domestic, regional, or interregional. It depends on the card, the transaction type, and the data that are captured and reported."

And foreign exchange exposures and concerns are part of the challenge, Hometh points out. "Shoppers anymore expect to shop via the Internet across the globe and pay in their own currency. For a long time, U.S. merchants avoided selling in multiple currencies and all the complications that involved, but now competition is forcing them to be multicurrency." And for that, they are likely to want a global acquirer or a domestic acquirer that offers dynamic currency conversion—an ability for buyers to see the final cost in their own currencies at the time the purchase is made.

Global acquiring has become only somewhat easier, agrees Donna Embry, senior vice president for strategic product development at Payment Alliance International in Louisville, Kentucky. "A lot more is involved than just working around rules," she notes. "There are in-country nuances. Consumers behave differently in other countries. The retail trends are different. There are language and currency barriers. Something as simple as colloquialisms can cause problems. There are personnel and trust issues."

The U.S. acquirers that have had the most success abroad, Embry says, are those that have hired and trained local people. "You can't transplant a successful U.S. model," she notes. "It's a different ballgame."



Different Game Plans

Each global acquirer is also playing a somewhat different ballgame. Payvision, primarily an online player, boasts that it can “globalize a domestic company,” Hometh says. Its clients are global merchants, ISOs, Internet service providers, electronic wallets, and acquirers that only have bank identification numbers (BINs) in their own currency, she explains.

First Data uses its own physical presence in countries like Germany, Australia, and the U.K. to deal directly with merchants. Globally, it uses partner banks as well as some ISOs to deliver merchant services, Badran reports. “One key to success is to partner with a group of global experts,” he notes.

Global’s game plan for global acquiring has been to buy up players in its chosen markets. “We do better with buying than building,” says Baker. “We’ve been very successful with a series of global acqui-

sitions.” Once Global makes a foreign acquisition, it keeps most of the existing management and staff in place and “backfills” by sending a few expatriots to bring expertise in acquiring and processing to the new subsidiary. “When we buy a company, we buy management as well as portfolios,” Baker notes. “We take their skills and experience and then leverage it with what we’ve learned in the U.S. about best practices. But we certainly don’t impose a U.S. model.”

Employment laws vary from country to country, Baker reports. “We have to understand and accept those practices.” In much of Europe, it’s common to provide an automobile allowance for senior executives, so Global provides them and adjusts compensation and benefits accordingly. “Each market requires its own business model and technology solutions,” he notes. Global’s reach currently extends to 45 countries and 25 merchant

funding currencies, he says.

Global works primarily in the card-present world, Baker says. “Our e-commerce is mostly with merchants that have brick and mortar but also sell through a Web site. We stay out of the high-risk areas.”

For Elavon, the keys to global acquiring include processing on one platform, offering a choice of funding, and providing consolidated reporting for international merchants, Harvey reports. And it includes a “very large customer service element. We have dedicated call centers distributed to handle our more than one million merchants around the world,” he says. The business is mostly MasterCard and Visa transactions, but Elavon accepts Discover, American Express, and a variety of other alternatives, he adds. Most transactions are card-present, but card-not-present transactions are growing faster, he notes.

For its global acquiring structure, Elavon relies primarily on multiple sales channels including alliances with more than 1,500 banks, which it pays for referrals, Harvey explains. The acquirer also has a strong ISO channel. “We have relationships with ISOs that recruit merchants and use us as the full acquirer,” he explains. Elavon assumes sponsorship responsibilities.

“We’ve built a processing business in Europe,” Harvey says. “We see our position in Europe as not only participating in the inevitable consolidation that is occurring but leading it.”

But at the end of the day, it’s all about scale, Cohen insists. “Payment companies win by leveraging scale,” he argues. “That works when we can take our existing processing platforms and bring more transactions to them. We want to avoid supporting multiple payment infrastructures in multiple countries.” The quest for scale is causing smaller players to exit the market, leaving more room for the large players, he notes. **TT**

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P R O U D L Y A N N O U N C I N G



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