



Managing Problem Merchants

How to handle contract hassles, haggling over prices, and unreasonable demands for service

By Julie Ritzer Ross

Most ISOs, at one time or another, have encountered a problem merchant. Knowing how to handle them and minimize the potential for the difficulties they can cause has always been important. But it's become even more critical given the increasingly competitive nature of the marketplace.

"While merchants don't necessarily cause trouble on purpose, they're definitely aware that there are both more of us, and a smaller pool of prospects from

morse' or after an offer of 'better' rates by another ISO," he says. "Or they'll routinely 'forget' the requirement, as part of the lease, to attend a sales meeting with us."

PFC Payment Solutions' portfolio currently includes 3,500 clients, each of which is assigned to a specific relationship manager. Should a merchant attempt to break a contract or fail to adhere to its terms, the relationship manager works with the client to find out what's up. He or she can then take steps to get back on track, such as assuaging

gaging in this type of behavior may put ISOs and MSPs at risk for their own set of troubles," says Marc Abbey, managing partner of Linthicum, Maryland-based First Annapolis Consulting. He cites as one example an Internet retailer that initially carries mainstream books, but later adds adult material to its merchandise mix. Or, in another example, a cyber-merchant that originally sells goods in a legitimate category—such as vitamins—via its own Web site subsequently commences distribution through third-party Web sites. In all cases, there can be ramifications, possibly legal ones, for the acquirer involved.

To avoid being blindsided by such changes, Abbey suggests merchants' contracts include the requirement that the ISO be informed whenever any new business initiative is imminent or simply being considered. He also advocates regular monitoring of cyber-retailers' Web sites, using technology tools that search for keywords commonly associated with risky business practices.

The Hagglers

A third group of difficult merchants are those that haggle with ISOs and MSPs about pricing and rates. Not long ago, NXGEN, an ISO/MSP headquartered in Whitefish, Montana, got a call from a merchant who "was angry because someone had told him we weren't giving him the best possible rate, and he wanted us to lower it to an impossible number," says COO Tom Nitopi. "We actually get a lot of inquiries or demands like this from our accounts. Some even want us to throw in free terminals in the bargain."

NXGEN shows bargain-hunting clients a side-by-side, "apples-to-apples" spreadsheet comparison of what the ISO's rate buys, and what the merchant might get for the rate it's demanding. NXGEN also warns merchants that they may be sacrificing service for low rates and giving up "free" terminals that likely have hidden fees.



which we can draw," says Kevin Jones, vice president of sales and marketing at First American Payment Systems in Fort Worth, Texas. "[So] they aren't as afraid as they may have been to push harder for what they want or do something they shouldn't, believing that if we want to avoid attrition, we'll go along with it."

The Contract Busters

Refusal to honor contract terms puts many merchants into the "problem" category, according to Ken Salazar, president of PFC Payment Solutions, an ISO in Greeley, Colorado. "For instance, they'll sign a three-year equipment leasing agreement, and three months down the road, they'll try to get out of it because of 'buyer's re-

a merchant's anxiety about not enjoying the "best" rates by conducting side-by-side comparisons with competitors' offerings or explaining why contracts incorporate specific requirements.

"These tactics are pretty effective, but sometimes we need to take a merchant's concerns to a higher level and sometimes we just have to let it go," Salazar says. "However, we've been able to head many difficult merchants off at the pass without alienating anyone."

The Risky

Other "problem merchants" are those that alter their business models and/or practices without warning their ISO or MSP. "Whether merchants realize it or not, en-

"It can be very eye-opening," Nitopi says, adding that NXGEN also trains sales representatives to explain different rate structures to prospective customers prior to boarding. This keeps haggling to a minimum; merchants who know why they're being charged certain fees and what these fees cover are far less likely to engage ISOs in price wars.

PFC Payment Solutions takes a similar tactic when it comes to pricing-related customer problems. "We walk merchants through the pricing particulars, and then ask them to give us 30 days to investigate their situation and justify rates," Salazar says. "The more armed we are with information, the better the chance" for a positive outcome for both parties.

The Demanding

Dealing with merchants who make unreasonable demands for service can be particularly frustrating. Such demands run the gamut, from repeated calls to ISOs' help desks about seemingly minor (and sometimes nonexistent) problems to insistence that processing and equipment glitches be

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completely resolved at lightning speed.

While such demands can't be completely eliminated, effectively managing customer expectations at the outset of the ISO/merchant relationship keeps them to a minimum. At First American Payment Systems, sales representatives initiate dialogue with clients about what they require from an ISO. For example, how fast would they expect a problem to be resolved? "We tell them how resolution has been played out in our experience, so a surprise doesn't turn to an upset," and so they don't have less-than-realistic expectations about service, Jones says.

A significant portion of less-than-reasonable demands by merchants stem from their lack of knowledge about transaction processing as a whole, maintains Abbey. "For example, merchants who don't know any better will repeatedly call the ISO to ask that something be done about chargebacks," he asserts. "The ISO can't do much, but merchants don't know that because nobody told them. To prevent them from becoming complainers, they need information up front."

Abbey says that the volume of merchants' cries for help can be decreased through better training and online reporting tools. "If merchants know, for instance, how to properly operate and maintain their terminals because you've trained them to do so, there just isn't going to be as much leeway for repeated service calls," he says. "The same is true if the ISO/MSP has supplied reporting tools, and the merchant is familiar with their use." **TT**

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