



The Green Sheet

The Financial Services Industry Source for Education, Inspiration and Actionable Advice

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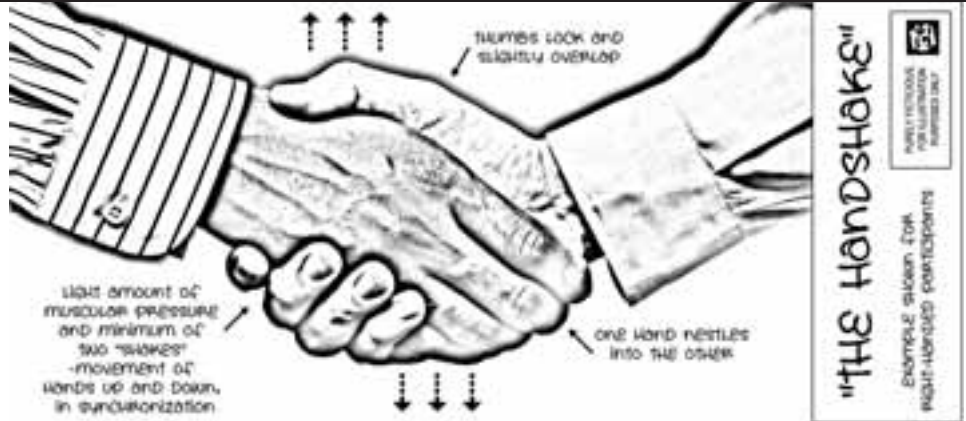
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Patents Protect Ideas, Enforcement Generates Revenues

In February 2004, Mark Ogram contacted The Green Sheet, Inc. He wanted to buy ad space in the publication for the purpose of soliciting expert testimony. He sought knowledgeable witnesses who could answer questions to support new litigation he was about to undertake.

Ogram wasn't looking for psychologists, handwriting experts or forensic pathologists, like real-life and TV defense attorneys and prosecutors do. Instead, he was looking for people in the payment processing field—in particular, people who know about electronic payments made on the Internet—to share their

knowledge with the court on his behalf.

"Finding experts is a difficult task," Ogram said. "Our attorney likes people with good wallpaper." In their search for expert witnesses, he, his company and attorneys have also contacted other resources including universities. "We're looking for people with expertise in two areas—the status of payments and payment techniques in 1995 and the present."

Ogram and his partner, Wayne Rod, own Net MoneyIN in Tucson, Ariz. They also own several patents and have several more pending. The



See Patents on Page 55



Notable Quote:

When you assume liability for merchant losses, think of your merchants as your children. You will likely benefit from their successes and suffer from their failures.

See Story on Page 70

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- » David Press-Integrity Bankcard Consultants
- » Charles Salyer-GlobalTech Leasing
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- » Dave Siembieda-CrossCheck
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- » Jeff Thorness-ACH Direct
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- » Dan D. Wolfe-Barons Financial Group



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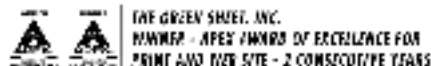
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Visa Level III Data Rate Question

In reading the "Street Smarts" article, "Taking It To The Next 'Level,'" (The Green Sheet, April 26, 2004, issue 04:04:02), I noticed that for Visa's Commercial Level III Data rate, it does not specify that this rate is strictly for non GSA Purchasing cards and would not apply for business or corporate cards. Could you please confirm if this is correct?

Sincerely,
Robin Palmer
Heartland Payment Systems

Robin,

We forwarded your question to Rick Ricker, Director of Operations of 3Delta Systems, Inc., a company specializing in Level III payment processing. The company's Web site is www.3dsi.com.

Editor

Ricker's answer is as follows:

This is a new Visa rate for all purchase cards. With GSA cards, if you have a "big ticket" transaction, i.e. over \$5K, you will be in that rate bucket, which to-date only requires Level-II per the GSA contract. It works out that the big-ticket rate is nearly equivalent to the Level II rate for those GSA transactions from \$5k to \$8.5K.

Level III is required for corporate big ticket, the threshold of which is \$10K and requires a \$1000 1X sponsorship by the acquirer.

Level III for Visa is only for corporate (including government) pur-

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chase cards. MasterCard has a Level III qualification for business cards, but I don't know of any issuer that gets the data to the cardholder.

Rick Ricker
3Delta Systems, Inc.

Which ISOs Process with Which Processors?

I am working on a white paper and I need some information. In simple terms, I need a list of the top ten processors and the top 15 ISOs, and I need to know which ISO processes with which processor. Is there any information like this I can get? Can I buy it? Any help is greatly appreciated.

Kindest regards,
Connie Festa
CEO, Americas
Welcome Real-time

Connie,

To the best of my knowledge, a list like this doesn't exist. If you are able to buy it somewhere, we'd love to share it! Our subscription database is proprietary; we do not sell or rent the names. We have published an annual acquiring report, highlighting the largest processors. This report is available on GS Online in the GSQ archive at www.greensheet.com/gsq/Secured-/gsqv6n4.pdf.

Editor

Correction

In "Lessons for Life and Business Can Be One and the Same" (The Green Sheet, April 12, 2004, issue 04:04:01), a book review of "Evolve or Die the Infinite Process of Becoming" by Timothy LaBadie, the wrong URL was listed for LaBadie's Web site. The correct Web address is www.evolveordie.us.



INDUSTRY UPDATE

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NEWS

NAOPP Offering Health Insurance to Members

The **National Association of Payment Professionals (NAOPP)** is now offering its members a new health insurance program through the JLBG Health & Fortis Insurance. The program will provide NAOPP members with major medical insurance coverage through Fortis Health, which offers benefits through preferred provider organizations (PPO's), health savings accounts (HSA's), family PPO plans, short term health plans and health reimbursement arrangements. Some of the benefits include:

- Your choice of doctors and hospitals from extensive PPO networks
- Initial 12-month rate guarantee
- Plans with a \$20, \$25, \$30 or \$40 co-pay for doctor visits
- Prescription drug card
- Optional dental and vision discount card

JLBG & Fortis Health provides health insurance benefit programs to major trade and professional associations throughout the United States. NAOPP members can get a health benefits consultation and enroll in the program of their choice by calling 866-633-6322 or visiting the secure NAOPP online health benefits Web site at www.assurantaffinity.com/naopp for more information.

ANNOUNCEMENTS

Authorize.Net Certified to CardSystems

Lightbridge Inc., parent company of Authorize.Net, announced that **Authorize.Net** certified its Internet Protocol (IP) Payment Gateway to the **CardSystems Solutions Inc.**'s processing platform. The Authorize.Net service, which supports card present and card not present transactions, is now available to CardSystems Solutions' financial institutions and ISOs.

Daniel Trust Co. Changes Name

Daniel Trust Company changed its company name to **ClearCheck, Inc.** ClearCheck Founder and President Eric Bergelson said, "We believe the name ClearCheck better identifies us as a check services provider." In addition to the name change, ClearCheck has a new logo; the company has also changed its Web site to www.clearcheck.com.

Givex Expands to UK

Givex Corp. said it is now offering its gift and loyalty card processing services in the United Kingdom.

GO Software Goes for Visa CISP Audit

GO Software, Inc., a subsidiary of Return On Investment Corp., is undergoing an audit using Visa's Cardholder Information Security Program (CISP) guidelines for merchants. **Ambiron** is the company conducting the audit.



- **Loehmann's Holdings Inc.**, a discount clothing retailer, will be acquired by a private investment firm for \$177 million, allowing it to operate with more flexibility.
- New York private-equity investment firm, Castle Harlan, Inc., plans to acquire Caribbean Restaurants LLC (CRI), operator of 165 **Burger King** restaurants in Puerto Rico.
- **2003 convenience store sales** jumped 16% over the previous year's, to a record \$337 billion; this information was reported at the NACS State of the Industry Summit in partnership with CSP Information Group Inc.
- Consumers cut back on their spending in April 2004, largely because of higher gasoline and food prices, and retailers, such as **Wal-Mart Stores, Inc.**, reported only modest or flat sales results, the Associated Press reported.

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Keycorp Certified by Canada's Largest

Keycorp Canada Inc. announced certification from three of the largest third party transaction processors in the Canadian payment terminals market: **CGI** and **Datawest** certified Keycorp's K23 payment terminals for ISOs that supply hardware and software to their merchant customers, and **BCE Emergis** is undergoing the certification process for the K23 products. Keycorp said the K23 has also been certified for its debit/credit surcharging application with cash-back functionality under the new Interac Third Party Certification regulations that govern Canada's electronic payments industry.

ETA Now Accepting Committee Applications

Electronic Transactions Association (ETA) is now accepting applications from members who would like to serve on a committee for the 2004-2005 year. The committees include: Award and Recognition; Best Practices; Editorial Advisory; Emerging Markets; Exhibitor Advisory; Government Relations; Industry Relations; ISO Advisory; Membership; Program Planning; Technology and Risk and Fraud Management Ad Hoc.

Appointments are effective July 1, 2004 to June 30, 2005.

Visit ETA's Web site, www.electran.org, for more information on each committee and a downloadable application. Applications must be accompanied by a resume or professional vitae and are due by fax or mail on May 29, 2004. For more information, contact Diana Blessinger by phone at 800-695-5509 or e-mail at diana.blessinger@electran.org.

Paymentech Certifies TPI Software

TPI Software LLC announced it is certified with **Paymentech** in its latest version 2.0 of the TPI Payment Server Platform.

SLIM CD Slashing Prices

SLIM CD, Inc. has cut its per transaction fees to provide resellers an opportunity for a higher revenue stream. The per-transaction cost will be reduced in half, to \$0.05 per transaction to allow greater pricing flexibility to ISOs, community banks and their merchants.

Targan Awarded ETA Committee Volunteer of the Year

Holli Hart Targan, a partner with Detroit-based Jaffe Raitt Heuer & Weiss, was awarded ETA's "Committee Volunteer of the Year Award" at the ETA Annual Meeting and Expo in Las Vegas, held April 19 - 22, 2004. Targan received the award in recognition of her outstanding efforts as Chair of ETA's Bylaws and Nominating Procedures Review Committee. Targan's law practice focuses on payment systems and electronic banking law.

Welcome Offers EMV White Paper

Welcome Real-time has a new white paper titled, "Profiting from Enhanced EMV." The white paper explores how an EMV infrastructure can not only reduce fraud, but can also increase revenues and market share. The company said it based the ideas in the white paper on its experience with banks migrating to EMV.

PARTNERSHIPS

Diners Club Seeking MasterCard as Partner

In order to grow and strengthen its brand, **Diners Club** is looking to join forces with **MasterCard International** to expand global acceptance of Diners Club cards for both Diners Club North America and International cardholders. The alliance would allow Diners Club cards issued in the United States and Canada to be re-issued with the MasterCard brand on the front of the card, which would then function as a MasterCard. These cards would be accepted at the more than 22 million merchant locations worldwide where MasterCard credit cards are accepted.

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Michael K. Severna Park, MD

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Lewis C. Worcester, MA

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Roy E. Redding, CA

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Diners Club cards issued by Diners Club International franchises would display the MasterCard logo on the back of the card, allowing these cards to be accepted at merchants in the United States and Canada and processed as MasterCard transactions.

Ingenico Announces Two Partners

Ingenico has integrated **Prepaid Solutions'**, a division of Advanced Data Services, Inc. (ADSI), Prepaid Solutions.Net prepaid services on its Ingenico Elite 710 multi-application POS terminal. Ingenico is offering this solution as part of its Value-added Services Program. Ingenico will also integrate **Certegy's** check services on its multi-application ready suite of dial terminals. Certegy's check services' offerings include check warranty, check verification and electronic check conversion.

Link Extends Squirrel Alliance

Link Systems, Inc., expanded its strategic partnership with **Squirrel Systems**, a provider of restaurant management systems for independent and chain restaurants, to include:

- Certification of high-speed Internet processing (DSL and cable modem) on the latest version of Squirrel POS software
- Certification of GiftLink, Link's gift card program, on most versions of Squirrel
- The exchange of restaurant merchant leads between the two companies

As part of a separate partnership, Link will provide ATM terminal driving and management to **Western Reserve Group** (WRG). Link currently "drives" more than 800 ATMs for WRG.

Paymentech Wins Shell Oil

Paymentech, LP will process gift cards for **Shell Oil Products US** at nearly 13,000 Shell locations across the United States, and at various other retailers offering the Shell Gift Card.

Precidia and EchoSat Install IP Solution at AmeriStop

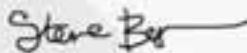
Precidia Technologies Inc., and private satellite provider EchoSat, successfully implemented an IP-based transaction processing solution for **AmeriStop Food Mart**, a leading chain of expanded convenience stores.

State of Maine Selects GovConnect

The **State of Maine Bureau of Health** selected **GovConnect**, a provider of digital service delivery consulting and payment processing solutions to gov-

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is not about up-front payments or one-time payouts. It's something more. We at **GET** believe it is about building something great, something we are both proud of. Isn't it time you build your own dream rather than making another processor bigger, richer, slower! The fact is you must "own" your merchants and your business not simply rent a name and get a check. Call us and begin building your future today.



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Founder & CEO

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TESTIMONIAL

Having worked in the bankcard world for a number of years both as an employee and for myself, I have come to know the difference between getting a paycheck and being in control of my future. I found GET late in my bankcard career and wish that I had found them sooner. My residual payments are always on time and are larger than they were at my previous processors. Who knows, had I found them earlier I might be the one with the Green Sheet ad.

Sincerely,
Tom H Chicago IL



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8 7 7 - 4 3 8 - 4 4 7 6



ernments, to provide contract monitoring and quality assurance consulting services related to the implementation of the Maine Integrated Public Health Information System (IPHIS). GovConnect is the operating company of eONE Global.

Visa Cardholders Can Put Pets on Cards

Visa International is offering a new service to its member banks that enables cardholders to design their own cards. Visa partnered with Serverside Graphics Ltd. to provide this technology to member banks.

Once it's adopted, Visa cardholders can use family or pet photos or other images such as children's art work to create their own customized Visa credit, debit, prepaid or gift cards. Cardholders will access the program online through their participating banks' Web sites.

ACQUISITIONS

Metavante Acquires Check Imaging Co.

Marshall & Ilsley Corp. subsidiary Metavante Corp. signed a definitive agreement to acquire Advanced Financial Solutions Inc. (AFS), a check-imaging tech-

nology provider. AFS serves more than 7,000 financial institutions in the United States and 25 other countries.

Its affiliate, Endpoint Exchange, is the only operational electronic check image clearinghouse in the world today. Metavante's acquisition also includes AFS affiliates CheckClear LLC, which owns and operates Endpoint Exchange, and The Medical Banking Exchange, a healthcare payment-processing platform.

APPOINTMENTS

Tom Della Badia Joins IRN

IRN Payment Systems appointed Tom Della Badia to serve as Vice President, Director of Sales. Della Badia has more than 15 years' experience. Prior to joining IRN, Della Badia served as Vice President of Indirect Sales for Lynk Systems, Inc.

Prior to Lynk, he served as Vice President for NOVA Information Systems, Inc. His responsibilities at both companies included recruiting, hiring and training MSPs and ISOs.

TrustCommerce Hires SVP Biz Development

TrustCommerce hired Greg Castro to serve as Senior Vice President, Business Development Officer. He will also be a member of TrustCommerce's executive team and advisory board. Castro previously served as Director, Executive Account Manager of Vital Processing Services; prior to joining Vital he served as the Western Region Sales Manager for Mulhern Bankcard.

COO Appointed at Pipeline

Pipeline Data Inc. hired Kevin Smith to serve as Chief Operating Officer. Smith previously served as a Senior Vice President at Concord EFS, Inc. Smith will also launch Pipeline Data Processing, the company's new ISO division and will serve as its President.

AdvanceMe, Inc. Recruits SVP Sales

Bankcard services industry veteran, Joe Valeo, joined AdvanceMe, Inc. as a Senior Vice President of Sales. Valeo has held numerous sales, account and sales management positions in leading industry organizations. Prior to joining AdvanceMe, Inc., he served as Vice President of Indirect and ISO sales with First Data Merchant Services.

Valeo also worked for Visa U.S.A. as a Senior Account Executive and as Vice President of Sales for Citicorp Establishment Service. 



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A Debit Card Tutorial

The Green Sheet, Inc. receives numerous inquiries about the inner workings of various retail payments systems. Following are some of the most frequently asked questions we've received recently regarding debit cards.

We spoke to industry experts and culled information from various online and print sources to present the most up-to-date and accurate answers available.

What is the difference between on-line and off-line debit cards?

Both on-line and off-line debit card transactions post against a customer's demand deposit account (DDA)—a checking account.

The primary difference between these transactions is in the customer authorization process. With on-line debit, the customer enters a personal identification number (PIN) to authorize a transaction; off-line debit requires a customer signature, as in credit card transactions.

On-line debit card transactions are routed through EFT networks (the same networks that route ATM transactions), while off-line debit transactions are processed through the credit card clearing and settlement networks.

On-line debit card transactions also post to customer accounts in real or nearly real time; off-line transactions can take a day or two to post to the cardholder's account.

This delayed posting feature creates some float, meaning customers can make payments in anticipation that sufficient funds will be available in their checking accounts by the time the payment clears, even if there are not sufficient funds available at the time of the transaction. (You know the game: Pay for groceries on Thursday, relying on the certainty that funds will be available for debiting on Friday when the customer's paycheck is deposited into the checking account.)

What is PIN-less debit?

PIN-less debit is an on-line debit application offered by the major retail EFT networks (Star, Pulse and NYCE) for recurring payments of varying amounts to certain regulated enterprises including utilities, lenders and individual government agencies. For collecting entities,



a key benefit of PIN-less debit is cost structure.

EFT networks use flat-fee structures—typically in the range of 40 – 60 cents a transaction. The credit card networks are accustomed to clear and settle off-line debit card payments, and they vary their fees based on transaction value, the type of business accepting the payment and capture methods.

How popular are debit cards? In other words, what percentage of the time can a merchant expect to see off-line (signature) debit cards?

Some merchants, such as furniture or jewelry stores, may see very few debit cards (on-line or off-line) presented for payment, while others such as grocers and quick service restaurants may accept debit cards for a large percentage of sales.

Available data suggest debit cards generally enjoy significant popularity at merchant check outs. For example, 59% of all transactions initiated with Visa-branded cards last year involved Visa off-line debit cards, also known as Visa Check Cards.

Visa reported that check card transactions represented 36% of Visa's U.S. sales volume last year, or \$454 billion. MasterCard reported that approximately 2 billion transactions worth an estimated \$82 billion were initiated using its MasterDebit (off-line signature) debit card product in 2003.

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While consumers have traditionally used debit cards as replacements for cash and checks, results of a recent survey by Edgar, Dunn & Co., a global financial services strategy and management consulting firm, suggest growing numbers of consumers now use debit cards instead of credit cards at the POS.

Financial Insights, a private financial services and technology research and consulting firm based in Framingham, Mass., estimated that 19.1% of POS transactions in the United States were initiated using debit cards in 2002.

By 2007, Financial Insights expects debit cards to be used in 45.1% of POS transactions, surpassing credit card usage by a factor of two to one.

In 2002, off-line (signature) debit cards were used for a total of 8.2 billion POS transactions, according to Financial Insight's data; on-line debit cards were used in 5.2 billion transactions, representing roughly a 60 – 40 split between off-line and on-line debit. Credit cards were used for 13.9 billion POS transactions last year, according to Financial Insights.

This year Financial Insights predicts merchants will handle 11 billion off-line debit card transactions, 9.6 billion on-line debit and 15.5 billion credit card payments.

By 2007, the firm estimates that on-line debit cards will account for nearly twice as many POS transactions as signature debit cards (24.9 billion versus 12.5 billion).

What are the prevailing consumer sentiments toward debit cards compared to credit and other types of payment cards?

While consumers have traditionally used debit cards as replacements for cash and checks, results of a recent survey by Edgar, Dunn & Co., a global financial services strategy and management consulting firm, suggest growing numbers of consumers now use debit cards instead of credit cards at the POS.

The firm's payments experts suggest the switch in preferences is due in large part to a "fundamental shift" in consumer attitudes toward cost and fiscal discipline.

(In other words, consumers in growing numbers want



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to pay for purchases with funds on hand today rather than with money they expect in the future.)

"[A] significant percentage of debit card spending has migrated from the credit card among cardholders who prefer debit," the firm said in reporting results of its nationwide consumer survey.

Thirty-eight percent of consumers surveyed by Edgar, Dunn & Co. in 2003 said they prefer using debit cards to pay for purchases, while 22% prefer standard credit cards and 20% prefer co-branded cards. Fifteen percent of consumers polled prefer using loyalty cards.

What are the prevailing interchange rates for on-line and off-line debit card transactions?

Off-line debit card interchange varies according to the type of merchant involved and the transaction amount.

For example, a Visa check card used at a service station is assessed an interchange rate equal to 0.7% of the transaction total plus 17 cents (with no maximum amount), whereas the fees for grocery stores top out at 35 cents. MasterCard's interchange structure mirrors Visa's closely, although some of the categories differ.

(For more detailed information, refer to the Visa and MasterCard off-line interchange fee charts published in The Green Sheet, January 26, 2004, issue 04:01:02).

Interchange for on-line debit card purchases range between 40 and 60 cents and are set by the EFT networks through which transactions are routed. Acquiring banks can—and do—mark up these fees to cover associated expenses, such as telecommunications costs, and to produce profits.

What types of consumer protections exist for debit cards?

Both MasterCard and Visa offer consumer protection in the form of zero liability for unauthorized use of off-line signature debit cards just as they do with their consumer credit cards.

Certain conditions apply, however; for example, only consumer accounts in "good standing" qualify for zero liability protection.

Unauthorized uses of on-line debit cards are addressed by the federal EFT Act and Regulation E. In most cases, customer liability for unauthorized use of online debit cards is \$50. ■



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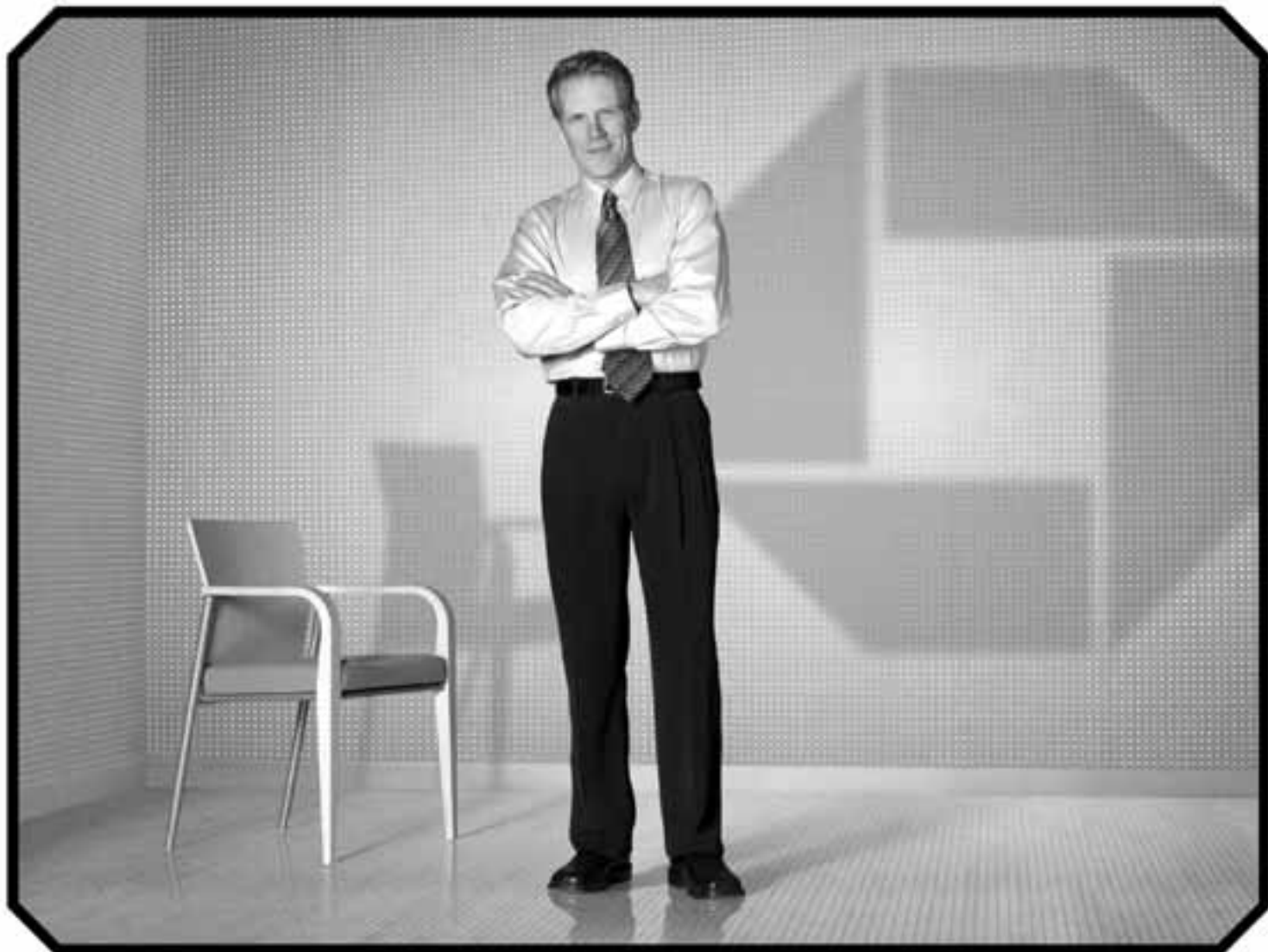
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How To Deal with Risk: Who's Minding your Money?

By Kimberly Marvin

Cynergy Data

Wouldn't your business run much more smoothly if your acquirer didn't care about risk?

Wouldn't customer satisfaction be a million times better if funds were never held?

We understand, but the problem is, your acquirer underwrites every single one of your applications. And that means it's on the hook for every single one of your merchants' sales, every day, for six months. Acquirers need to protect themselves, so they hire risk managers—like me.

Of course, you understand, right?

The thing is, we're not in this business to hold money, frustrate your merchant or lose a deal. We are truly in the business of getting your merchants approved and processing profitably. We are on the same page.

So, here's what you need to know to get your deals done and your merchants processing smoothly, without any intervention from risk management.

Be Honest and Clear with Applications

In the typical scenario, you're out pounding the pavement trying to sign up merchants, and merchants want to get the best rate for the least investment of time and energy. So what happens? You whip out applications, ask a few questions, and pencil in the answers. The information is hard to read, so it gets entered and filed incorrectly.

The merchants weren't paying attention, so their businesses are not fully and accurately represented. As a result, a traditional brick and mortar retail store, for instance, fails to mention that it also processes mail order transactions.

This may seem like a minor problem, but it is far from it. If the application isn't clear or accurate, our systems will flag internal risk parameters, and we will place funds on hold. Risk managers will have to explain to your merchant why funds are being held and what needs to be done in order to get funds released and prevent the situation from recurring.

In fact, some 70% of the funds we put on hold are put

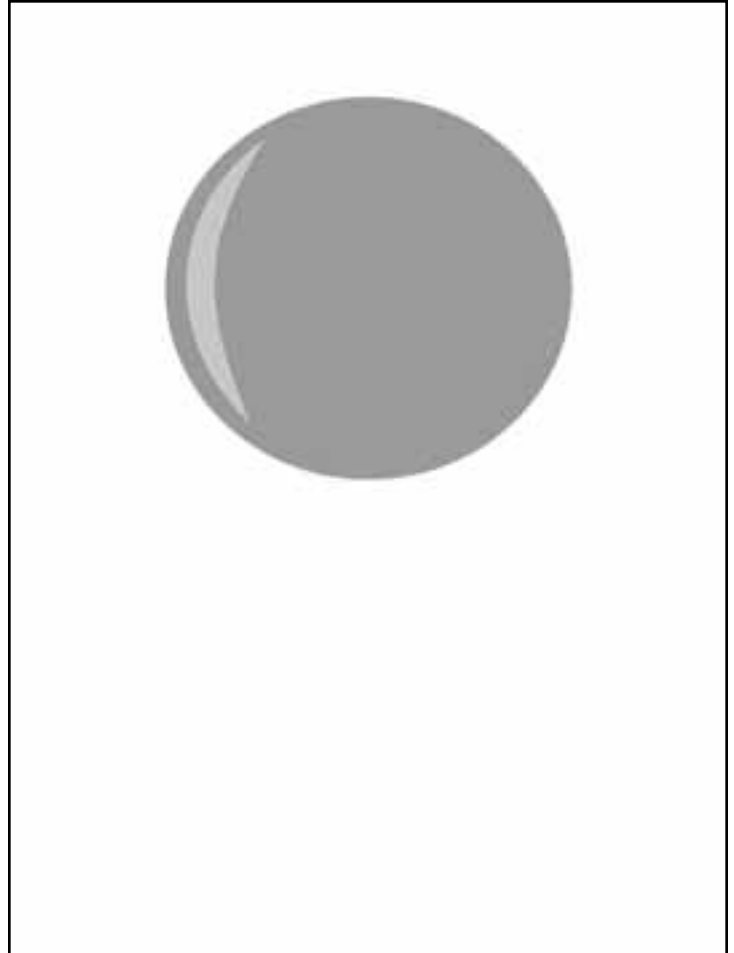


there because business is being conducted outside the parameters set forth in the application. Not fraud, not chargebacks, not deliberate misrepresentation, but simply an application filled out too quickly by a sales rep anxious to close a deal.

Separate the Wheat from the Chaff

We're all better off if fraudulent businesses are identified before they have a chance to do damage. So, whenever feasible, do what you can to make sure the information you are taking down on the merchant application is legitimate.

Visit the brick and mortar location. Does it exist? Is the neighborhood viable for business growth? Eyeball inventory. Will it support the volume of sales your merchant claims to produce? For instance, if merchants are selling electronics, and they actually own their inventory, then there should be a warehouse stocked full of products to fulfill the demand.



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On the other hand, if a retail clothing store wants to process \$20k but only has one rack of clothing hanging in the corner of the store on wheels... watch out. If you are at all uncertain of the validity of any merchant's claim, check it out. Because at some point, risk management will.

Make Sure Your Merchants Understand Their Own Risk

Talking about chargebacks in the middle of a sale is probably not a great deal closer, but forewarned is forearmed. Merchants who truly understand the ramifications of accepting credit card transactions are far better equipped to handle problems if they do occur and far less likely to "shoot the messenger."

It's amazing how many hours we spend talking to merchants who don't even understand the concept of a chargeback, never mind the details. But the bottom line is quite clear: Customers have the power to deny the validity of a sale, and the burden of proof falls on the shoulders of the merchant.

Ask Intelligent Questions, and Note the Exceptions to the Rule

Our job in risk management is to protect the processor. Sudden changes to the norm flag our system. They warn us that something is not what it should be—that the predictable has become unpredictable. It gets our attention, and if we are unsure, we will hold funds until the situation straightens out.

This is where a careful and attentive sales rep can stop trouble before it begins. Some businesses, such as garden centers or snowplows, are seasonal. For merchants like these, sudden jumps or dips in processing volume is not a warning of something gone amiss; it is the norm. But you need to tell us this.

Act as Though You Were Taking 100% of the Liability

If your goals are to provide good customer service and prevent problems before they occur, then many risk problems can be averted. Understand the warning signs of fraud. Be suspicious of credits without offsetting debits, swiped charges taking place outside of normal business hours, or a lot of unusually small transactions.

Understand that exceptions to the norm will send up a red flag. Take care to represent your merchants accurately and adequately on all applications. And understand that risk management is on your side and for your benefit.

Many instances of fraud (though, admittedly, not all) can be detected, and many inadvertent mishaps can be avoided. Risk management departments aren't going to go away, but if you understand where we're coming from, you'll find that risk managers are actually a rather warm and fuzzy group of people. ■

Kimberly Marvin is Risk Manager for Cynergy Data, a merchant acquirer that provides a wide array of electronic payment processing services while continually striving to develop new solutions that meet the needs of its agents and merchants. In addition to offering credit, debit, EBT and gift card processing, along with check conversion and guarantee programs, the company offers its ISOs the ability to borrow money against its residuals, to have Web sites designed and developed, to provide merchants with free terminals and to benefit from state-of-the-art marketing, technology and business support.

Founded in 1995 by Marcelo Paladini and John Martillo, Cynergy Data strives to be a new kind of acquirer with a unique mission: to constantly explore, understand and develop the products that ISOs and merchants need to be successful and to back it up with honest, reliable, supportive service.

For more information on Cynergy Data e-mail Nancy Drexler, Marketing Director at nancyd@cynergydata.com.



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Protect Your Card-not-present Merchants' Businesses from Credit Card Scams

By Michelle Graff

NOVA Information Systems

Identity theft makes headlines as one of the biggest contributors to increases in fraud. This criminal activity continues to grow as crooks easily gain access to consumer credit data and personal information. According to the latest figures available from the Federal Trade Commission, identity theft played a role in 42% of all credit card fraud in 2002.

Undetected fraud leads to chargebacks and losses for merchants because unless fraudsters are caught, they run off with the merchandise without paying for it. Receiving an authorization for a transaction does not guarantee that the card is valid, nor does it guarantee the card has enough "open to buy" remaining on its credit line to fund the purchase.

Many merchants process their transactions in person at the point of sale where the credit card is present. Other merchants handle transactions over the telephone, through the mail, or via the Internet where the card is not present.

Transaction processing for these two types of transactions varies greatly; however, both require reasonable steps to ensure the card, cardholder and transaction are legitimate.

Card-not-present merchants are perfect targets for bankcard fraud. Criminals take advantage of the fact that they can operate anonymously. They know that many of the security features that prevent fraud in the physical world do not apply in the card-not-present environment.

Mail order/telephone order (MO/TO) and e-commerce merchants who choose to process transactions in the card-not-present environment must understand that there is a greater need for protection against fraud exposure and associated losses. This is primarily because card-not-present merchants can be held financially responsible for a fraudulent transaction, even if the card issuer has approved the transaction.

Many identity theft rings operate outside the United States, but target U.S. merchants through Internet and phone card-not-present transactions; this makes it difficult for law enforcement agencies to shut them down. Investigative research indicates that many fraudsters order merchandise and request that it be shipped to Indonesia, Nigeria, Ghana or the United Kingdom.

Typically, these fraud rings contact merchants via e-mail or by phone and make card-not-present purchases. Fraudsters provide a credit card number, and in some cases, images of the front and back of the card to further create the illusion of legitimacy.

After the crooks complete an order and receive merchandise, they initiate transactions using other card numbers. After each purchase, all contact information provided by them becomes invalid, making it extremely difficult to locate their base of operations.

Code 10: First Line of Defense

As a concerted effort to put fraud detection practices in place, the banking and retailing industries established a "Code 10" procedure for both face-to-face and card-not-present transactions. Acquirers, including NOVA, offer clients a strong line of defense against foreign shipment fraud through the combination of the industry-standard Code 10 process and a good voice authorization department.



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Merchants employ Code 10 to alert a voice authorization center operator about a suspicious transaction.

When a MO merchant specifies shipment of merchandise to a foreign country, the merchant contacts the voice authorization department and requests a "Code 10." The call is then routed to the card-issuing bank and the card number is forwarded to the acquirer's Loss Prevention department.

A Loss Prevention representative contacts the card issuing bank's security staff to inquire about fraudulent use of the card. If the card is confirmed to be a fraud, the merchant is contacted to stop shipment.

Taking it to the Streets

MLSs can extend a greater sense of security to their merchants if they process with an acquirer that has the ability to stop potential fraudulent activity before merchandise is shipped. NOVA can query its entire base of more than 650,000 merchants to determine if a card identified as fraudulent has been used at other merchant locations.

If so, a phone call is placed to those merchants alerting them to the criminal activity in an attempt to stop shipment of the product. This proactively prevents charge-

backs and losses that would be sustained by other merchants targeted by the same criminals.

Since January 2004, Code 10 has prevented more than \$1.25 million in fraud losses for NOVA Network clients. Of the 550 incidents of suspected fraud identified by Code 10 during that span, 535, or 97%, of them have been confirmed as fraudulent. Spotting fraudulent transactions before merchandise is shipped significantly reduces fraud losses incurred by merchants.

"The aim is to spot fraud before the transaction enters the system," said Robert Walker, Vice President of Customer Loyalty for the NOVA Network.

For more information about Fraud Control Basics and Code 10, visit the following areas of Visa USA's Web site:

- www.usa.visa.com/business/merchants/fraud_basics_index.html
- www.usa.visa.com/business/merchants/fraud_basics_code10.html



Michelle Graff is Vice President of Marketing for NOVA Information Systems. E-mail her at michelle.graff@novainfo.com.

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BOOK REVIEW

Everything You Do Is a Building Block to Success ... and Your Dreams

It's always amazing when people can take a personal hardship and turn it into something positive—not only for themselves, but for others to benefit from. That's exactly what Frank F. Lunn has done in his book, "Stack the Logs!"

In 2002, Lunn's son, Frankie, was diagnosed with leukemia. While Frankie was undergoing treatment at St. Jude Children's Research Hospital in Memphis, Tenn., Lunn reflected on an idea he had for a book that had been in the back of his mind for quite a while. This idea grew from advice Lunn received from his father to "stack the logs": Stack one decision and choice on top of the last, until the success is achieved. And eventually the pile of logs is so high, no one can miss it.



"Stack the Logs! Building A Success Framework To Reach Your Dreams"

By Frank F. Lunn
Kahuna Business Group, Bloomington, Ill., 2004
ISBN: 0-9728300-4-9 (Hardback), 320 pages
Available on www.stackthelogs.com

In 1995, Lunn, a small business entrepreneur and marketing expert, founded Kahuna Business Group—an ATM affiliate and business cooperative that partners with various vendors to sell products and services through a network of independent affiliate organizations.

In the first chapter of "Stack the Logs!" Lunn reveals the secret principle of success, which he says is in plain view for everyone to use, but few actually do. He explains that success is frequently talked about but rarely understood.

Lunn says the real secret to success is "a cumulative achievement with no real shortcuts." That's obvious, right? But caught up in our busy lives and our day-to-day troubles, not only do we often fail to reflect on the obvious, we often fail to reflect on much of anything at all. This is why we, as both ordinary and extraordinary individuals, need reminders and new insights that can be found in the pages of "Stack the Logs!"

Lunn uses the concept of compound interest as a working metaphor in our lives. He calls it the Incremental

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Cumulative Effect (ICE) formula. The idea behind this philosophy is that where you are in your life right now is the result of small decision after small decision. These decisions are "compounded" and when you add them up, together they are the sum of your life.

In fact, you can plot these decisions on a graph—Lunn calls it your "personal success graph"—and as you stack your logs, the results start to form a J curve. If a spike appears on the graph, it is the result of consistent, dedicated and thorough effort over time, or the compound interest of success: our "applied incremental advantage."

The theme for "Stack the Logs!" comes from what Lunn defines as the STACK Strategy for guaranteed success: Set your destination and course; Take immediate action; Accept results simply as feedback; Correct your course based on feed-

back; and Keep Stacking the Logs.

The book offers twenty inspirational chapters loaded with clever examples and rousing stories of individuals from Lunn's life and throughout history who in their own ways have put this belief system to work and achieved success by applying their own versions of the STACK philosophy.

These stories are intended to inspire you to incorporate the STACK strategy into your life. There are chapters on the importance of setting your goals and planning for them, building momentum, dealing with disappointment and setbacks, staying focused (and positive) and maintaining integrity while on your journey.

Some noteworthy sections include: Breaking the Chains of Average; You, Inc.; Abraham Lincoln's Journey; Acres of Diamonds; Act as

If; Poison in Your System; Flying Lessons; Forging Steel; and Crabs in a Bucket. Once you've mastered STACK, Lunn presents an Advanced STACK strategy in the final chapter of the book, which he says is a plan guaranteed to work 100% of the time.

The book is well paced, astute and can be read in a few long sittings, or flipped through on those days when you need a reminder of why every decision you make is important; or you might simply need to be inspired at a particular moment. I certainly was.

Lunn credits St. Jude Children's Hospital for saving his son's life, and he has set a goal of donating \$1 million to the hospital through a 10% tithe on all proceeds from the book. For more information on Lunn, his son Frankie's story and "Stack the Logs!" visit the Web site www.stackthelogs.com .

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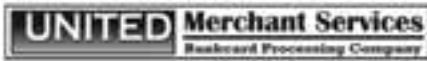
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Speaking the Languages of Your Customers

As the number of minority-owned businesses in the United States continues to grow—the latest U.S. Census Bureau data* show Hispanic-owned businesses make up 6% of the total number of non-farm businesses in this country, and Asian-owned businesses make up 4%—ISOs and merchant level salespeople (MLSs) recognize there is unlimited potential in offering payment processing services to this market.

United Merchant Services, Inc. (UMS) is a 10-year-old ISO based in Englewood Cliffs, N.J. The company focuses on providing bankcard processing services—including Visa, MasterCard, American Express and Discover—and multi-lingual support to two unique merchants niches in the United States: Asian American- and Hispanic-owned businesses.

By pursuing and servicing merchants in large ethnic markets in major U.S. cities, UMS founder and President, Jay Yoon, and Senior Vice President, Shirley Yoon, have been able to differentiate UMS from the competition by "literally speaking the language" of its customers.

In 1994, Jay Yoon founded UMS, which has since grown to employ more than 30 people at its headquarters and support a large network of sales agents across the United States.

"I realized then there was a lot more to be made in the business than just

equipment sales," Jay Yoon said. "There was a potential for huge future growth, which made me decide to start my own company."

"There was a lot to learn in the beginning, but every year we built another layer of knowledge and experience into our organization," Shirley Yoon said.

Initially, UMS targeted Korean business owners. "Being Korean, we know most Koreans are small business owners," Shirley Yoon said. "It was just natural for us to start in the Korean market."

But their organization has grown to also include the Hispanic market. In 2000, UMS created a Spanish sales department providing service in Spanish.

"As we grew, we saw that the Spanish market offered a big opportunity, too," Shirley Yoon said. "There were a lot of Spanish-speaking agents looking for a more comprehensive—not to mention profitable—company with whom to do business where we are located. Now we're trying to expand into other Asian markets, including the Chinese market."

Why has UMS been so successful servicing this niche of merchants? The Yoons said that merchants can get bankcard anywhere—it's just a matter of filling out an application. But if their terminals go down or if they get chargeback notices, often they don't know what to do, and

* U.S. Census Bureau 1997 Data



that's a big part of UMS' value proposition: customer service.

Because UMS offers support in different languages, the company helps merchants resolve risk, terminal and chargeback issues and other matters that they would have a hard time communicating otherwise.

UMS' MLS and agent partners also understand the significance in this approach to selling bankcard services. Many of them have been with the company since it opened for business, and many are established in their respective markets.

The Yoons believe this is for a number of reasons: The agents feel secure with UMS' stability—the company is not looking to build up its merchant base over the short term and then sell out, wiping out what many agents have worked hard to build up. They can rely on

getting their residuals, and they have a partner with whom they can build up their own sales organizations.

The Yoons believe that the quality of their customer service, not being able to offer the lowest price, is the key to their success. "A lot of our agents are Asian or Hispanic themselves," Shirley Yoon said. "I'm sure they know there are a lot of other companies out there, and if they look, they might be able to get better pricing, but I think the type of service we offer and our stability are big reasons why some of our agents have been with us from the very beginning."

UMS sends out regular communications through a monthly newsletter to its sales partners to keep them up-to-date with what's going on in the company and the industry. "We feel that keeping our sales force abreast

of what's going on will motivate them to partner with us in actively servicing their merchants, which positively affects merchant/agent retention," Jay Yoon said.

In addition to the ISO/MLS sales channel, the company welcomes agent banks and has a BIN sharing plan for larger partners that want a greater share of profits and a more active role in the credit/sales decisions of their businesses.

The company said it's flexible in tailoring a program to suit each individual sales partner's needs, since every partner differs in size and geographic region. UMS rolled out a new Web-based program called "I-APP" to allow these partners to input merchant applications directly into its merchant maintenance program.

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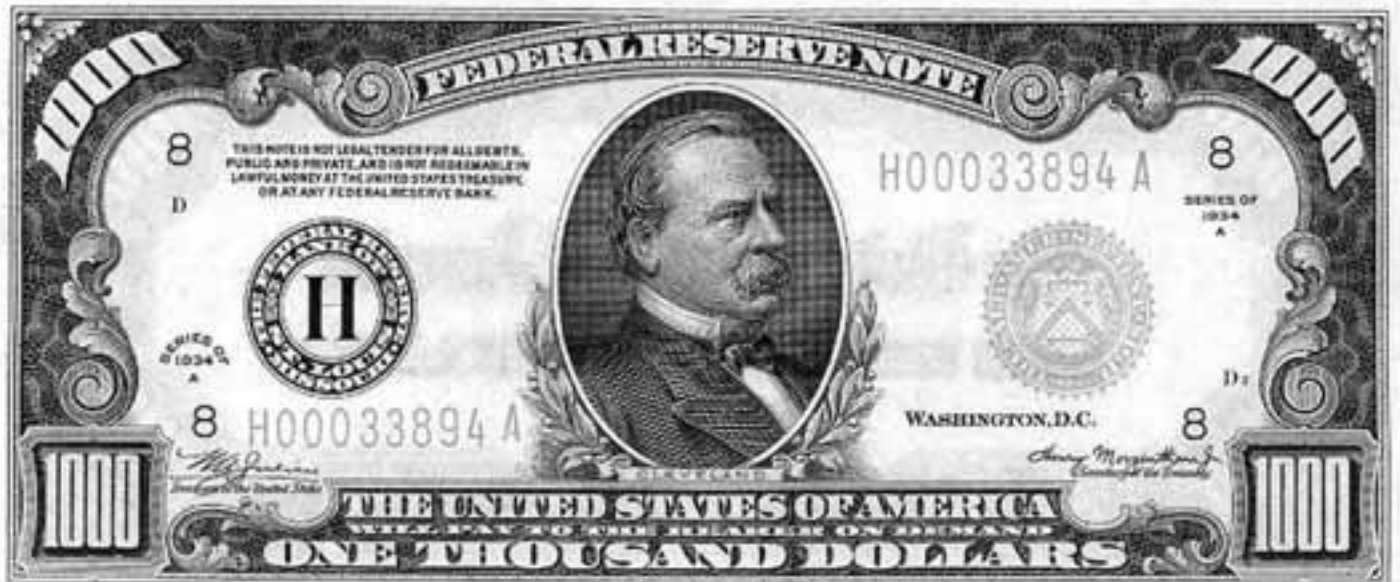


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buy-rate or split profits—all with no liability to the sales partner, and the ability to fax in merchant applications. The company offers incentives such as a cash-signing bonus, and various other compensation plans, including cash rebates or free equipment. And most importantly, UMS said it pays residuals, guaranteed.

UMS' MLS partners use a variety of methods to target merchants such as advertisements, referrals and door-to-door work. "A lot of Korean and Chinese businesses are concentrated in a certain area, and often they operate the same type of businesses," Shirley Yoon said.

"In the Korean market, for instance, a lot of people have dry cleaners, nail salons, restaurants or retail stores that are in a certain type of location, so the agents know where they can go or where they can look to find prospective merchants."

"Sixty to 70% of our merchants come from referrals," Jay Yoon said. "We have built up a pretty good reputation in the market. Our agents and our merchants are more loyal than the mainstream market merchants."

UMS now has agent partners located all over the United States. The company's presence originally was on the East Coast, including N.Y., N.J., Georgia and Florida; parts of the Midwest, including Chicago and Detroit; and Texas, but it started to branch out to the West Coast in 2000.

In 2003, UMS opened a sales office in Los Angeles to coordinate its sales efforts on the West Coast. "We've been concentrating on developing that area, and we've seen a lot of movement and growth there," Jay Yoon said. "We also recently began penetrating parts of Arizona, Hawaii and the Seattle area."


Between 2002 and 2003, UMS began

expanding the business in other ways, too. The company started its own in-house leasing division and began offering a gift and loyalty card program, called FlexGift Loyalty.

The Yoons said they brought leasing in-house because of customer service issues with third-party leasing companies. "Many of our merchants couldn't communicate with the leasing companies, especially on collection issues or end-of-term buy outs," Shirley Yoon said. "That's when we decided we needed to provide a better solution."

"Our merchants don't know the leasing company; they only know United Merchant Services because they signed the lease through United Merchant Services," Jay Yoon said. "So it began to reflect negatively on our reputation."

One aspect of UMS' business that



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has made it so successful is its customer service. The company offers customer service and help desk support in English, Korean and Spanish. They also provide documentation and manuals in these languages. The Yoons believe this gives UMS and its partners an advantage with their merchants.

UMS handles everything—from credit underwriting and data entry to risk management; front- and back-end support—all in-house. And each department has multi-lingual service personnel.

"Since we offer customer service in languages other than English, our merchants only recognize United Merchant Services," Jay Yoon said. "They call us to solve their problem. We're trying to bring all of our services in-house. If you outsource any part of your service, there is a limitation to providing the best service."

UMS has seen a lot of demand lately for its FlexGift Loyalty program, which offers two options: a gift card and a point reward program. The gift card replaces paper gift certificates, and the cards can be encoded for any amount up to \$200; they can be reloaded again and again.

The point reward program tracks and records sales transactions of the cardholder and rewards the cardholder with redeemable points. A company can manage, add or debit accumulated points on a customer's card by Web access to their FlexGift account.

Merchants can run UMS' FlexGift Loyalty program on VeriFone, Inc.'s Verix platform for Omni terminals and on Hypercom Corp.'s terminals.

The program allows merchants to maintain their own client data via the Internet. Merchants can print out customer address labels for direct

mail campaigns or e-mail upcoming sales all through UMS' Web site.

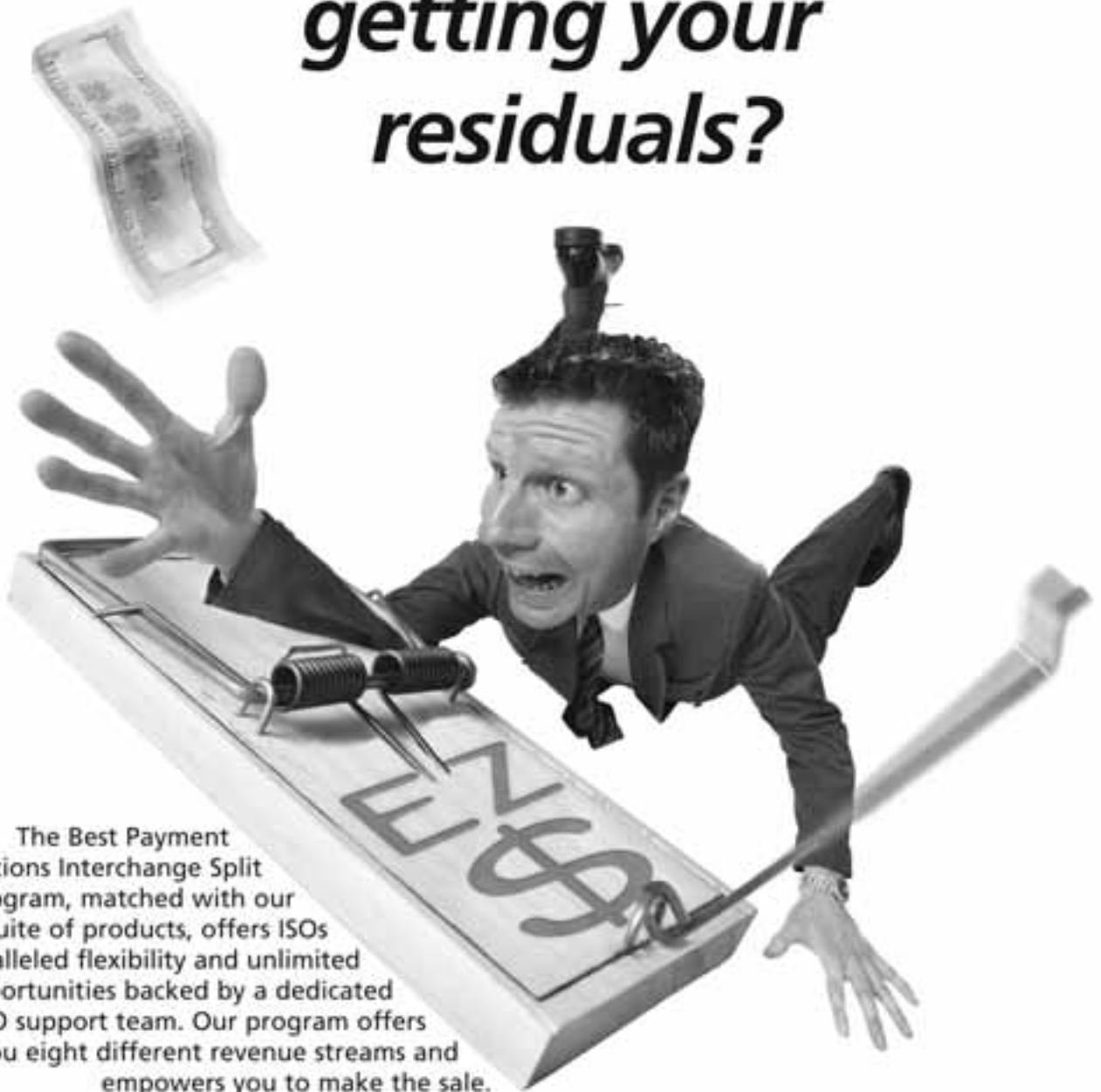
For single-location merchants who don't have a lot of money to invest on equipment and processing fees for gift and loyalty programs, UMS also offers the FG 1000, which is a stand-alone POS terminal that enables merchants to implement a gift or loyalty program right out of the box.

If prospective merchants or agents ever have questions about any of UMS' products or services, UMS says they can always contact the company to receive more information—and they will most likely be able to communicate in their own language.

The company's vision is to continue expanding its services—and in more languages, nationwide. ■

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Record Attendance at 2004 ETA Show

When the payment processing industry descends upon "Sin City" for a conference, it knows how to break records. The Electronic Transactions Association (ETA) announced a better-than-ever turnout for its 2004 Annual Meeting and Expo held April 19 – 22 in Las Vegas. Nearly 3,000 payments industry professionals attended the event—an increase of 25% over last year's show.

ETA's 2003 Annual Meeting and Expo hosted 2,371 attendees, while this year's event brought in 2,967 total registrants and 146 exhibiting companies.

This year, for the first time, ETA extended a special offer to 1099 independent contractor merchant level salespeople (MLSs) to attend one day of the conference at a dis-

counted rate. More than 130 MLSs took advantage of this select one-day pass.

The 2004 conference premiered under the direction of ETA's new management team, including Executive Director Carla Balakgie.

"When our exhibit hall sold out in February, almost 10 weeks before the show, we knew we were headed for a successful event," Balakgie said.

"We didn't realize, however, that we would break all previous participation records. This success is testament to a strong industry supported by a vibrant community of professionals."

ETA said people from all levels in the payments industry—from CEOs and principals to technology spe-

cialists, ISOs and MLSs—and from all segments were present, including transaction processors, terminal manufacturers, financial institutions, value-added resellers, sales organizations, gift card providers and Internet payment solution providers.

Offering three new courses, Intro to Technology, Intro to Operations and Intro to Sales and Marketing, ETAU also claimed a record number of "students": 447.

"ETA is fostering a dynamic and attractive venue that serves as a conduit for the professional and business development of those in the industry," Balakgie said. "...vendors and payment professionals recognize the value of this opportunity and are increasingly turning to ETA for the best education and networking." ■

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By Lisa Shipley
Hypercom Corp.



All right, so you're feeling a little sick because you've beaten down the door of every retailer on the planet, and now you're In Search Of the next big opportunity to grow your portfolio. Well my friends, please take a seat in the waiting room; the doctor will be with you shortly—with a prescription for your next big success.

Can you say "healthcare?" ISOs and MLs, this is the big kahuna; it's the one you've been waiting for. This is the potential tsunami of business opportunity, and I'm here to give you the game plan—or should I say prescription?

At the heart of it all are federal privacy laws administered under the umbrella of the Health Insurance Portability and Accountability Act (HIPAA). In simple terms, HIPAA requires physicians, hospitals and the whole body of healthcare providers to handle claims and eligibility electronically.

And guess what? PC's are NOT the answer. They are too slow, and they're not built for these types of applications. Instead, card terminal technology is the answer—that is, if you're selling the big memory units with the fast (56K) modems.

Right now, this opportunity is staring you in the face. In fact, the dates below will open your eyes to how big and timely this revenue stream—an ocean of opportunity—really is for ISOs and MLs.

According to the U.S. Department of Health & Human Services' Web site (www.cms.hhs.gov/hipaa/hipaa2/deadlines.asp), most healthcare providers and

health plans should have been HIPAA compliant by April 14, 2004 and everyone must be fully compliant by Aug. 1, 2005. Pretty exciting isn't it?

Here's some insight on how big this market is and how many locations are potential candidates for you to pursue: Though a precise number of total hospitals in the United States is hard to come by, it's in the tens of thousands.

One source conducted a survey of 26,000 hospitals (for profit) handling 38 million patients. That equates to 114 million potential transactions for you, considering the government via HIPAA is requiring that enrollment, billing and eligibility verification are to be done electronically. And let's not forget "old faithful"—the payment transactions.

By the way, we might look at hospitals as multi-lanes because of their size. You might think these hospitals have great computers and therefore don't need terminal technology—but this is not true.

As I said before, terminal technology (with fast modems and a lot of memory) accommodates these transactions, while regular computers do not.


Next, let's do a count of physicians—who typically have offices that now need to do HIPAA-required electronic transactions—and the population of this country. Keep in mind these offices are a target market for you when you pursue healthcare business.

As of April 2004, the Census Bureau cites the U.S. population at 292,990,663. Other research I conducted found that the average number of physicians per capita is 286 per 100,000 which means there are nearly 3 million physicians in the United States who, according to other data I found, are handling 880.5 million patient visits annually (as of 2001).

Again, looking at HIPAA requirements, each patient potentially adds up to three healthcare transactions: enrollment, billing and eligibility verification (I didn't



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include payment transactions as these are likely already happening.).

Using simple math, that means you're looking at upwards of 2.6 billion transactions in a market segment with almost no terminals in place to do these HIPAA-required electronic transactions.

I could go on with the Mount Everest-sized number of healthcare locations and transactions that are going to need the right kind of terminal technology—from you or your competitors. But, in addition to those numbers, there are clinics, labs, physical therapy centers, etc. that must also deliver HIPAA's transaction requirements.

If you can't see the size of this opportunity by now, then may I suggest a quick visit to the eye doctor—who, by the way, will need to do your enrollment, eligibility and billing electronically using a big memory card terminal with a really fast modem.

So, are you ready to go after this biggie? Here's some guidance to get you going. In my view, you should immediately take this edition of The Green Sheet and head straight to your nearest processor; ask your processor with whom they have partnered to provide not only med-

ical transactions, but also credit card transactions.

There are companies such as MedCom that have zeroed in on this really big arena of opportunities—and they need YOU to help make it happen at the "point of privacy" (doctors offices, hospitals, health plans, labs, etc.) They are all over this as a leading processor of HIPAA transactions. Their niche related to HIPAA is provided here verbatim from MedCom:

"...The MedCom System can take care of all the transactions a medical office will need: checking a patient's insurance eligibility, co-pay information, patient self-pay receivable management, claims processing, pre-authorizing treatment and patient referrals all from one terminal..."

If you're already on the way to your car to get started on this great opportunity, wait a few more seconds. You will fail in this business segment unless you have terminal technology with a large memory capacity and a seamless multi-application operational capability equipped with a really fast modem.

These terminal characteristics are not optional because of the size and complexity of the non-payment transactions that HIPAA says must be done electronically.

This shouldn't be a hard sell; actually, it should be relatively easy. It's all about return on investment (ROI). There are ROI calculators on the Internet that can show you that the return on this investment is significant (if you can't find them e-mail me, and I'll lead you to the information).

These ROI data can be easily presented to the office manager or the decision maker at virtually any medical facility. When you have the economics on your side, along with government regulations that require capabilities such as big memory and a fast modem, you should be making many more trips to the bank to make big deposits thanks to your new revenues from this market segment.

Finally, if you are truly in search of building the biggest, most valuable portfolio so you can cash out big one day soon, then add healthcare HIPAA transactions right away.

I can tell you from my direct experience that I'm already seeing terminal orders in big numbers coming from those who have caught on to this business segment.

To me this is a profit monster that's really just waiting for you to grab it. Now, I've given you the prescription, so go fill it!

Lisa Shipley is Senior Vice President, Hypercom Corp. You can reach her at lshipley@hypercom.com.

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Put Your Wallet Away, but Keep That Cell Phone Handy

Reading magazines while standing in a check-out line waiting for a clerk to ring up purchases and complete the transaction may soon be an outdated activity. Contactless payments are closer to becoming a reality in the United States, thanks to cell phones and computers attached to shopping carts, and to partnerships between wireless and hardware providers and the card associations.

In Massachusetts, Illinois and the Dallas/Fort Worth area, programs using wireless technologies are allowing shoppers with hand-held devices to scan chip-embedded items on grocery store shelves; selections are tracked and recorded via wireless communication and viewed on a screen attached to the cart. Shoppers tally and pay for their own purchases; a variety of payment methods are being tested. The Shopping Buddy pilot in several Stop & Shop locations in Massachusetts uses Pay By Touch biometric devices to access customer account information.

Nokia, Visa International and overseas wireless carriers are in the midst of "proximity payments" pilot programs in several countries, including South Korea, Japan and Finland. Several million people will take part in the South Korean trial in 2004; so far, 89% of the early users said

they would use the system again, Visa said.

The systems use wireless phones outfitted with radio-frequency identification (RFID) capabilities to read chip-embedded items on store shelves, and then access credit or debit accounts to complete the transactions. Visa International hopes to incorporate wireless technologies, including RFID, infrared and a new standard called near-field communication (NFC) in programs for contactless card payments, or "U-payment," in the United States.

At the International Consumer Electronics Show in January 2004, Visa and partner Philips Semiconductor demonstrated how mobile devices use NFC for very short-range (distances of up to three-inches) communications. NFC's big proponents, Philips and Sony, see it as a way to establish communications between many electronic devices—cameras, PDAs, computers, TVs—so consumers can buy and transmit services, including music, between them.

According to a spokesperson, Visa considers mobile phones to be its biggest target market in contactless payments; the widespread use of both credit cards and cell phones makes them natural partners. ■

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Patents from Page 1

patents cover an automated system for making and securing payments over a network of computers, linked so that customers are able to make electronic payments of various types—both existing or future methods—either directly or indirectly to merchants, which are then routed to a payment processor for completion.

Ogram and Rod have initiated action against at least 33 financial institutions and payment processors and gateways, including American Express Financial Advisors, Citibank, Wells Fargo, VeriSign, Paymentech, Cardservice International, InfoSpace, IBM, PayPal and Cybersource, for patent infringement.

They filed their initial patent application in 1996 and it was approved in 1998. Net MoneyIN granted licenses to "quite a few" of these companies, but is still in litigation with others, Ogram said. They are asking these companies to pay royalties of 2 cents per transaction, a fee they and their experts feel is a fair value.

Ogram is a patent attorney as well as the inventor of the system he claims is the process to complete electronic transactions on the Internet. He said he developed this system in 1995 when he sold online patent services, a time when "there wasn't much out there, and the techniques for accepting payments were not professional."

Patents for Protection or Profits?

The broadness of the claims within a patent has incredible impact on its potential for enforceability. When a technology is young, its specific points may not be completely understood, so the wording of the patent's claims can be inclusive of any later applications.

Two often-cited examples of what happens when patents are issued based on claims that are too general are Amazon.com's "One-click" technology, which allows customers to order products on its Web site instantly by clicking one button. A company named Open Market, Inc. owns a patent for a technique that uses an electronic shopping cart to purchase goods on the Internet.

Sometimes it's a matter of who gets there first. Payment Data Systems, Inc. provides integrated electronic payments solutions. In March 2004 it applied for patent protection for the technology that will enable "unbanked" customers to pay bills electronically using cards linked to debit and ATM networks and stored value accounts.

The company expects the patent will be issued and has already entered into one perpetual licensing agreement. Part of its business plan includes being able to license providers of debit and stored-value cards and networks including Visa, MasterCard and American Express.

Fines, royalties and licensing fees can generate huge profits for the companies or individuals who own patents and then press infringement issues. As with merchant accounts, there are people who buy up patents and assemble portfolios of them solely for the purpose of collecting damages and licensing fees.

Does that lessen the importance of patents for individuals and small companies with a unique idea or product that deserves protection?

Are there too many patents issued in the first place? Does the whole concept of patents, including application, issuing and enforcing, stimulate or hinder innovation?

In industries where the technology changes rapidly, especially in payments, are ideas that build on existing methods truly original? Can anyone or any company really own the process of shopping on the Internet?

Are patents that protect intellectual property the new weapon in e-commerce?

The answers to these questions vary depending on with whom you speak. The discussion, like the topic itself, is complex.

Monopolies Through History

European governments have issued patents since medieval times for things like textile production or mining techniques; these exclusive grants served as means to generate income without raising taxes.

The U.S. government issued its first patent in 1790 for an improvement in processing potash, a substance made from the ashes of burned plants and used in soap making. The United States Patent and Trademark Office (USPTO) opened in 1802 and created a system to spark innovation and reward inventors for their work with temporary business monopolies. Secretary of State and inventor Thomas Jefferson reviewed the applications.

Abraham Lincoln was the only American president to be awarded a patent. Even though his idea for a device that helped boats move over rocky shoals was never manufactured, he understood the overall implications of the patent process: "The Patent System added the fuel of interest to the fire of genius," he wrote.

This was especially true during the Industrial Revolution in America, the period of time between 1790 and 1850 when the Yale lock, Colt revolver, cotton gin, sewing machine and steam engine were all invented, and has had a tremendous impact on enterprise ever since.

Today, the USPTO operates as part of the Commerce



Department. Patent number 7,000,000 will most likely be issued this year. More than 375,000 ideas for products and processes, designs and logos now reach the USPTO every year; examiners review these and award approximately 3,500 new patents and 2,000 trademarks each week. In 2003, it received 355,418 patent applications and issued 189,587 patents on previously filed inventions.

Today, business method patents (combining business methodology with software) or those that protect intellectual property are the hot topics, but the concept of patenting business methods didn't take hold until 1998. That year, the U.S. Court of Appeals for the Federal Circuit decided in *State Street Bank & Trust Co. v. Signature Financial Group*, or *State Street*, as the landmark case is called.

The court affirmed that software, based on unpatentable mathematical algorithms, and the similarly unpatentable methods of doing business the applications might direct, are indeed eligible for patent protection.

Business method patents are important because they give owners—whether they develop the patents directly or acquire them—exclusive rights to the business methods for 17 years. Patent owners can exploit them by licensing the methods and collecting fees from any other businesses that use them.

State Street was the first time abstract ideas were defined as property to be protected, and the floodgates opened, eliminating legal obstacles to obtaining valid patents for business methods, especially those involving computers.

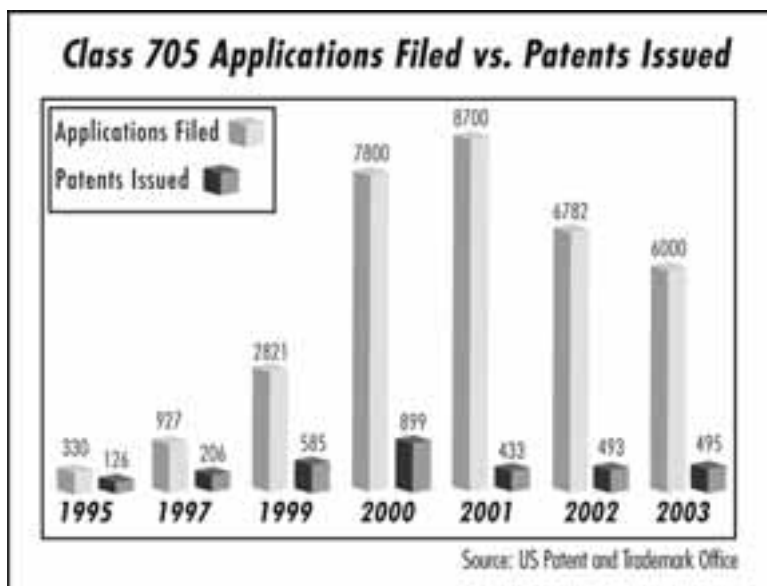
The boom in Internet-related patent application filings was on, coincidentally just in time for the dot com frenzy. In 1997, only 927 applications for Class 705 patents were filed; in 2000, there were 7,800 and in 2001, there were 8,700 filed.

The USPTO has a separate division for administering patents that deal with the various fields covered by business method patents; within that division, its Tech Center 3600 office issues the patents related to e-commerce. The narrower focus of this office deals with banking, finance,

e-shopping and financial transactions—what the USPTO calls the Class 705 category.

John Love, Director of Tech Center 3600, said there are 100 examiners who deal exclusively with applications in this class. The review process takes between 2^{1/2} to 3^{1/2} years from application filing to approval. "We hire examiners who meet general overall qualifications in engineering or science," Love said. "We have several examiners with MBAs, degrees in business administration or economics and industry experience."

Groups such as NACHA—The Electronic Payments Association and the American Bankers Association also provide advice and training to examiners to help them understand the industry for which they're approving patents.



What are all these highly-skilled people looking for in all those patent applications they review? "Patents are granted for new, useful and unobvious innovations," Love said.

Examiners, with the help of their industry group partners, begin by researching what's known as "prior art" to determine the uniqueness of the innovations.

Scouring databases and files, court decisions and precedents, examiners look for things that have been done in the past—and identify the differences in the new idea.

In support of Net MoneyIN's patents, Ogram said they look for anything "remotely related to Internet payments" before the 1996 application filing. Prior art relates to what was known at the time of the filing. Every once in a while he said they find new documentation to support their claims.

"It's extremely complicated," he said. "You have to say what the ordinary guy knows and whether he would be able to make that jump. So far, no prior art has curtailed us."

The patent examiner must be convinced the new idea or product will work. "We issue patents on the presumption of validity," Love said.



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It often comes down to examiners making judgement calls, which is why they rely in part on the advice of industry experts. "The difference must be obvious to one skilled in the art," he said. "That's always the \$64,000 question."

Patents in Payments

The explosion of technological innovations in payment processing make new methods so much a part of our daily lives that we eventually take them for granted.

Everything from the ways consumers and merchants use and accept checks and payment cards, to the means by which transaction information is captured, communicated and handled might be novel for a while, but they soon become accepted as the way things are.

However, there are plenty of people—including a number of attor-

neys—for whom the subtle and not so subtle variations in the business methods of the payments industry matter. Patenting those ideas and systems becomes very important to the business' vitality.

"Many businesses use patents to better their positions," said Michael W. English, Director of Marketing and Communications for Ingenico. "It's a competitive move."

CoCard Marketing Group, LLC is an ISO with an operating structure so unique, the company's founders decided to patent the business model. They also trademarked the name to eliminate any confusion and prevent other companies from sounding like them, according to Malcolm Carnahan, Executive Vice President.

The patent was applied for in 2000 and has been accepted, he said.

CoCard is a cooperative business; like other types of co-ops, its members are its co-owners. CoCard is set up so that its members/owners earn profits on their initial investments based on a pro-rata percentage basis and benefit from the merchant accounts they all bring in each month.

"We knew if we were successful, this model would revolutionize the industry," Carnahan said. "The idea of co-ownership gives us a unique structure, and that's valuable."

One important aspect that patent ownership brings to a business is to create or add to its value. Part of the idea in forming CoCard was to plan for its eventual sale; the members/owners will earn returns on their investments at that point. The patent will become the property of CoCard and could be a factor in the sale negotiations.

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Carnahan said they're not so concerned with licensing the idea of a co-op ISO as they are with protecting their plan.

Many companies included in the pages of The Green Sheet own patents on products or business models and have been party to infringement proceedings. When they're on the wrong sides of lawsuits or the receiving end of cease and desist letters, some agree to pay licensing fees to continue operating—and to avoid costly court expenses.

As English said, "Settling a patent infringement case doesn't necessarily indicate culpability. The enforcement of a patent depends on how the patent is written up." Ingenico has been involved in patent disputes with companies including RDM Corp., which it's settled, and with NCR, which is pending.

Pay By Touch provides biometric solutions for identification and tokenless transactions. Steve Zelinger is the company's General Counsel and asserts that many small companies own valuable patents that they don't leverage efficiently.

Through the acquisition of Indivos in August 2003, Pay By Touch now holds the patents that company owned, and all of its assets.

"We have a portfolio of 23 issued and 13 pending patents," Zelinger said. "They are relevant to our business and specifically apply to the process to enable tokenless payments; it's a patented process to protect the transaction."

The core patent is on the process that puts all the factors of a pressure-sensitive, biometrically authenticated transaction together, including customer registration at retail locations, reading and storing the fingerprint whorls as algorithms, attaching an account to the fingerprint and encryption. "We're proud of what we do. The patents give us a higher level of protection," Zelinger said.

To enforce its ownership of those patents, he said PayByTouch first contacts its infringing competitors with notification letters asking them to stop using the technology or to inform Pay By Touch they have a different system. The next step they take is to seek to license the technology.

The complexity of the concept of owning ideas makes for lengthy court proceedings. When you have ideas building on ideas, determining which small part of an overall process is being infringed on gets expensive; even for larger companies with deep pockets, sometimes it's just easier to pay the licensing fees and move on.

Ogram said that as a small company with limited resources, Net MoneyIN's preference is to pursue a non-

litigation approach to obtaining license agreements. He feels it's in the economic interests of the payments industry to acquire and hold various fundamental patents, such as the ones he owns, as a consortium. That would provide businesses with a legal framework to use in protecting their industry; it would also provide recoverable business costs, which litigation expenses are not.

"We're not in business to put anyone else out of business," Ogram said. "The Internet is a volatile place. If [a company we've sued] has gone out of business, it's not because of us. They can't say we drove them out of business."

Zelinger contends that patent ownership is a critical component of business today. "Patents have been part of the economic engine since the Revolution," he said. "They're a very important part of the American economy. It's a brilliant system."

But not one without downsides.

"On one hand, you create an economic incentive to roll out processes by increasing limited monopolies," Zelinger said. "On the other hand, when people run rampant filing infringement suits, it creates a frozen situation, crowds out ideas and hampers inventors.

"When you have critical technology essential to a process that everybody needs, it can be very lucrative for the people who engage in that business. There are start-ups that rely on patented processes to succeed—and but for certain case law, that technology would not be rolled out.

"But there are large companies that have invested in current technology; they buy patents and bury them because they constitute a threat to their existing business models."

Even as an attorney, Ogram said he's amazed at how much control defendants in Net MoneyIN's patent suits relinquish to outside law firms. These firms, he said, have a vested interest in fighting, not settling, lawsuits. More often than not, attorneys prevent the two sides from talking to each other.

Considering what's at stake for companies involved in patent suits and the complexity of the law, seeking legal advice is imperative. "There are many lawyers making a good living in patent litigation," said the USPTO's Love.

Patent Portfolios as Armor

Individuals and companies are increasingly reaping financial rewards from patent ownership and capitalizing on intellectual property. They develop or acquire patents for the sole purpose of earning royalties and driving profits from them.

Pangea Intellectual Properties, or Pan IP, of San Diego,



owns two patents that claim key aspects of e-commerce: One covers an automated sales and service system, the other covers an automatic business and financial transaction system. (See "Nightmare on e-Commerce Street," The Green Sheet, June 24, 2002 issue 02:06:02)

Pan IP was formed as a limited liability corporation in 2002 and soon began to sue small- to medium-sized enterprises across the country selling music supplies, baked goods, coffee, sporting goods and sewing materials via Web sites.

While some defendants banded together to fight the suits, Pan IP has sued dozens of merchants, successfully collecting licensing fees ranging from \$5,000 to \$30,000 from many of them.

Ron Epstein is a former attorney who specialized in intellectual property law and licensing. His new

firm, IPotential of San Mateo, Calif., consults with businesses on intellectual property assets and advises how to develop, acquire and protect them.

Is it fair when a company collects or uses patents specifically to seek damages and fees from small—or big—businesses?

"Patents are an economic asset, and the buying and selling of them has seen hockey stick growth," he said. Especially with intellectual property, which is increasingly viewed as a commodity, more and more companies use patents as financial tools, as means to create value.

"The momentum has changed, and the fact is, patents are enforced more and more often, whether for competition or income," Epstein said. "Intellectual property is part of the financial assets that don't show up on spread sheets."

He cites the recent spate of large payments in resolution of several patent disputes. Microsoft will pay Sun Microsystems \$900 million and InterTrust \$440 million; it will also pay tens of millions of dollars in infringement claims brought by separate smaller organizations.

Intel paid \$675 million to Intergraph Corp. to settle a patent dispute.

"These are just the tip of the iceberg," he said.

As we move from an economy based on products and services to one based on information, we will have to define how we own and protect intellectual property or intangible ideas.

"The essence of the debate is 'What is fair? What is fair recompense?' These are questions that are not well-understood," Epstein said. ■

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The Mind of the MLS

My goal for a new series of columns is to expose what is really going on in the minds of people part of a unique and intriguing group—merchant level salespeople.

Join me as we explore what MLSs think about and what weighs heavily on their minds. We'll discuss day-to-day challenges and relevant thoughts. By delving into the inner workings of the MLS mind, "Street Smarts" hopes to put a strong finger on the pulse of MLSs and track the issues they deal with in today's challenging marketplace.

That being said, I posted the following on the MLS Forum:

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My next series of "Street Smarts" columns will focus on the "Mind of the MLS." So, tell me, what's really on your mind? What concerns you? What topics would you like to see discussed? What issues need to be talked about?

As expected, the response was overwhelming and revealed a lot about the mind of the MLS. Here's just a sampling:

"We believe the most important issues facing ISOs and sales reps today are declining margins and merchant attrition. The days of large, up-front lease commissions are over, and our business models need to revolve around long-term portfolio building.

"This is getting more and more difficult as merchants perceive our products as commodities. To build your portfolio, you must provide a better product and service than your competitor, yet at an equal or better price. It is very difficult to provide the best service at the lowest price."
 —ecom

"In some ways, I think the concerns of the MLS depend on where they are in their [business] developmental stage. New MLSs are probably concerned with leads and survival.

"Once a person progresses to where he/she can create new business, the concern shifts to 'Will my ISO or acquirer pay me? Is there a better deal out there? If I leave, will I get cut off? Will my ISO sell and leave me in the gutter?' (Has anyone noticed that since NAOPP started, there haven't been any blatant reports of MLSs being cut off? Coincidence?)

"Just like the stock market, I think the MLS (investor) has to weigh the risk (above concerns) with return (com-

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mission percentages, buy rates). I think once you get over the last set of concerns, you end up where I feel I am as an MLS...I think, 'How long will this incredible career be available?' I hope my concern is baseless."

—Desdinova

"Here is my Top 10 list of what could be decision factors, concerns and/or needs for the MLS:

1. Competitive buy rates and commissions
2. Protecting residual portfolio for life
3. Agent support
4. How the customers are treated by the ISO
5. Experience and leadership from the ISO
6. Flexible and more product offerings such as value-added products to be competitive
7. Quality training, how to sell
8. Leads
9. Marketing and advertising
10. Survival

"Today, ISOs are providing, at a basic level, equipment, services, underwriting, deployment, merchant support—and that is it. I believe the Top 10 list above is the next level of support that may be lacking, and it's what the individual sales agents on the streets need most.

"Some start their careers in the bankcard industry not knowing where to start and what to do next...The industry has changed over the past five years; it is more competitive now." —rhendrix76

"I don't want to lose my residuals. As long as I don't do something that puts the ISO bank at risk, like something stupid or illegal, I should not have to worry about the residuals. I don't want to compete with the ISO I rep for. I don't want my ISO to have a call center in another country. I don't want to have to make money on equipment...This is a great business. I hope there is always room for small players." —bankcardrep1

"If we slowly amass a nice sized portfolio, will we be rewarded financially, and why do we have to bring it all in month after month? Why don't we have our own ISO and get 50% of our MLS money? How much of the 50% kept by the ISO is profit? Are we ever going to get cut off? What residual payment can we rely on for retirement, or do we also have to make a 401K contribution?

"Will our family inherit our hard work, or will it die with us? If ISOs have one owner, what will happen after they die? Will our merchants get taken care of properly so they stay? We bring the money to the ISOs; we could send it anywhere we please. So, we should be treated

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with a similar rule that the customer is always right and not feel bad when we have to pass on a merchant complaint or to ask for a better share" —maketelinc

Interesting responses. I agree with Desdinova. I think the working of the mind of the MLS depends on which stage of business you are in. MLSs just getting started are largely concerned with how to generate leads and their own basic survival.

You can see from these posts that as MLSs progress, their concerns shift toward making sure they get paid, holding on to their residuals, and signing up with the best compensation program all to ensure long-term financial security.

Do we just think about the big picture, or do we also "sweat the small stuff"? What about the day-to-day minutiae that flood our thoughts? What's on the mind of the MLS on any given day?

To find answers to these questions, I went back to The GS Online's MLS Forum on May 5, 2004 to open a window into the mind of the MLS. Here's what I found that particular day:

"Can I set the password from MMDD to what I want it

to be? Like any four digit code?" —nurit

"Does anyone know someone who can sell 50 new Nurit 2085 for cheap?" —jmartin

"How much do you want for them?" —jenglish

"I need to buy them!" —jmartin

"What is your 'desired' buy price...How cheap is cheap?" —empire

"I'm looking for about \$219... is this unreasonable for the amount I'm buying?" —jmartin

"Yes. 10,000 unit pricing from Lipman direct is nowhere near that price. \$219 is realistic for factory refurbished, but not new." —ubc

"Hello, My merchant wants password protection when he does refunds and reports. Is there a way to do that at the terminal end? Thanks." —Joe

"If memory serves me right, you press 'Menu/ESC'...then '2' for merchant parameters...then '2' for security level, and you can set levels for different operations. I don't think you can set a password if that is what they want, but they can use the default—the date backwards." —rick.johnson

"I am trying to reprogram a customer-owned 3750, and the normal 1 AA password does not work. The processor gave me a second one to try, and nothing. Any 3750 guru's know how to blow out the memory?" —guru

"Try 1-6-6-8-3-1 without the Alphas." —empire

"Nope... it flashes the VMAC screen, then goes back to the loaded applications' main menu. Thanks for the suggestion, though." —guru

"Try 53664337 or 5364337." —brett

"Thank you all for your responses. Here is the answer (at least in this instance) press '1.' I love this forum!" —guru

It's obvious that we all have work to do every day and can't always concern ourselves with big-picture issues. What may not be as obvious is that at the end of the day, you're not alone with your thoughts.

Instead of feeling like you're the only one plagued with worries over how to get a reasonably priced terminal or how to reprogram equipment, visit the MLS Forum to find support and solutions to your immediate problems. There you can see how many others think the same way you do.

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Isn't it interesting that on any given day, MLSs are confronted with similar issues? To say you are a group of like-minded individuals is an understatement. MLSs are all fighting the same battles and thinking the same thoughts. When it comes to the mind of the MLS, it would appear it's not just about "I want to get paid" or "I want to get leads" or "who pays the best"—it's also about getting through the daily workload.

But the best part about the mind of the MLS that I determined from taking the pulse of the feet on the street is the MLSs' desire to help one another. We all have similar hopes and concerns but the common thread that I see in reading the MLS Forum posts, and meeting with and speaking to MLSs all over the country, is the desire to help others improve and succeed.

If this continues, I see a bright future for all those involved in this phenomenal industry. As Zig Ziglar, one of my favorite authors, said, "You can have everything in life you want, if you will just help enough other people get what they want."

On a separate note, I'd like to remind all of you hard-working MLSs that Paul Green and The Green Sheet have agreed to buy the first year's membership to the National

Association of Payment Professionals (NAOPP) for every reader who sends in a success story to me at StreetSmarts_Feedback@greensheet.com.

Tell me and other MLSs how something you gleaned from a "Street Smarts" article lead you to a success, and just by sending in the story, you get a free one-year paid membership to NAOPP!

Paul also offered a one-time paid conference fee to the regional conference of choice to the MLS who is selected each month as having the best success story.

And what would a contest be without a grand prize? For the best story received in 2004, the winner will be awarded a fully paid trip to the 2005 ETA Annual Meeting and Expo, including hotel, airfare and registration fees. This is your opportunity to give something back. I look forward to reading your success stories.

As of press time, I have yet to decide the topic for the next column. Let's call it the "surprise column" for now. You will need to visit the MLS Forum to see what's on the mind of Mr. Street Smarts.

As always, I'd love to hear your opinion on this column or any other topic. Please send your feedback to street-smarts@totalmerchantservices.com.

"The secret of health for both mind and body is not to mourn for the past, not to worry about the future, or not to anticipate troubles, but to live the present moment wisely and earnestly."

— Buddha

See you next time where the rubber meets the road.

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Legal Ease

Five Things an ISO With Liability Should Know

Adam Atlas

Attorney at Law

In my experience, there are two kinds of ISOs with liability: (1) the kind who know exactly what they are getting into and (2) the kind who don't know anything about the meaning of liability. I wrote this column for both. Unfortunately, many ISO liability clauses receive even less attention than you're giving to the first paragraph of this column.

Some would say that the ISO business is essentially a sales business; however, the difference between vacuum cleaner salesmen, for instance, and ISOs is that the vacuum cleaner salesmen are never liable for fraud committed by their customers.

In contrast, ISOs are often liable for not only fraud committed by their customers but also breaches of applicable laws, association rules and applicable merchant agreements. Therefore, a serious ISO is a lot more than just a sales business mainly because many assume liability for a myriad of wrongdoings by the merchants to whom they promote bankcard services.

Whenever entering into an ISO agreement, one of the principal business decisions to make is whether the ISO should take liability for "merchant losses" under the agreement. The following is a typical industry-standard definition of merchant losses:

Chargebacks or any other charge to a merchant including, but not limited to, any and all negative deposits (unfunded customer credits), loss relating to merchant fraud, processing fees, authorization fees, and other charges, that have not been paid by merchant to processor as required under the merchant agreement.

I have never seen the same definition of merchant losses twice. Each agreement has its own unique approach to this subject. Acquiring banks generally believe that merchant losses are any liability that they have to associations or issuing banks on account of merchant activity, which could include: unpaid processing fees, fraud, chargebacks, underfunded customer credits, fines for violations of association rules, and other expenses related to such losses.

There is a general consensus among banks and ISOs as to

what merchant losses actually are; however, ISOs sometimes believe that merchant losses are something less than the acquiring bank's interpretation.

In order to avoid misunderstandings and draft a mutually beneficial liability clause between a bank and an ISO, consider the following:

1. Understand and Agree on Definitions

Take time to discuss with the bank the meaning of the term "merchant losses." Discuss examples of what would or would not be included in the definition.

Take notes during the conversation, and amend the definition to match your understanding during the discussion. The worst possible time to learn the meaning of the definition is when the bank sends you a \$100,000 invoice for merchant losses.

2. Discuss Limitation of Liability

It is very unusual for a bank to cap ISO liability on merchant losses, but it's worth discussing. For example, perhaps the ISO wants to assume full liability, but only up to \$1 or \$2 million, at which point the bank and ISO could share liability.

3. Pricing

The better pricing that an ISO gets for taking liability is not money to put in the bank. Part of that additional revenue must be invested in underwriting by the ISO; otherwise the ISO is setting itself up for disaster.

On a similar point, shop around. There are many deals out there to choose from, especially if your deal count is more than 100 merchants per month.

4. Payment Schedule

Most ISO agreements require that merchant losses are due immediately on demand by the bank. Think outside the box on this. An ISO with liability is like an insurance policy for the bank on its merchant processing business.

It makes sense that the bank should pay some kind of a premium for that insurance; for example, by allowing the ISO to pay the merchant losses on a payment schedule, rather than in one lump sum. Remember, in this scenario, the ISO is paying money to the bank that the bank would likely not otherwise recover.



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5. Pinpoint Liability

The ISO agreement should be explicit so that the ISO should not be liable for merchant losses caused by the bank. Assuming the agreement reflects this principle, then as soon as a loss occurs, the ISO and the bank should work together to rapidly determine the facts behind how the loss occurred and who should assume liability for the loss. It's too easy to assume that the ISO should carry liability and pay close attention to the facts.

Occasionally, mismanaged ISO liability leads to more than financial loss. Sometimes, without any intentional wrongdoing, default by an ISO on a liability clause results in an ISO being listed on the Terminated Merchant File (TMF), or Member Alert to Control High-risk Merchants (MATCH) List.

These are lists, maintained by the bank associations, of merchants and other intermediaries that have been terminated for breaches of association rules, among other reasons. The associations deny that the lists are intended to deny merchant services to merchants or ISO agreements to ISOs.

In my practice, the de facto result of such a listing is often

termination of the business of the listed entity. For this reason, remember that a mismanaged ISO liability clause can be more costly than the actual amount of the liability assumed—it can put the ISO out of business.

There are a host of other issues to consider when negotiating a liability clause. Some newly registered ISOs have never dealt with underwriting or liability issues.

Liability, like any business risk, can be mitigated with some basic protection such as due diligence on merchants and underwriting. These protections are not mysterious and should be embraced enthusiastically by an ISO carrying liability.

When you assume liability for merchant losses, think of your merchants as your children. You will likely benefit from their successes and suffer from their failures. 📧

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Beyond Bankcard

Who Says Check Guarantee is Dead?

By Lin Fellerman

Secure Payment Systems

Going back as far as 20 years, I've heard from so-called industry pundits who to this day continue to pontificate on the demise of the paper check. Well, I hate to break the news, but the king is not dead, as my colleague Steve Eazell wrote in an entertaining article last month here in this very publication ("On Life Support, Paper Checks Making Valiant Effort," *The Green Sheet*, April 26, 2004, issue 04:04:02).

In fact, the paper check is not only alive and well (conversion as we know it at the point of purchase actually depends on it), check guarantee—the bane of our existence—is also surviving and thriving.

Over the years, despite its success, as evidenced by the growth enjoyed by Telecredit/Equifax Check Services (now Certegy Check Services), First Data Corp.'s TeleCheck, CrossCheck, Inc., and many others (including my own company), check guarantee has nevertheless been kicked, maligned, beaten and tossed aside like an old scrap.

Take that paper check out of the trashcan—clean it up, polish it, and reuse it!

Why you say? Because those shiny, new fangled picture-taking machines known as imagers, which are selling like hotcakes these days, depend on it.

I say paper check guarantee is not dead! Based on my experience, I can tell you I am not alone in this regard. Probably 80% of the guarantee deals that are written today are still the vanilla paper-based variety. How can this be?

Paper check guarantee is certainly not as sexy and streamlined as its conversion counterpart. It also does not account for the sizzle of imaging equipment sales, or the greater likelihood of guaranteeing all checks versus the age-old "cherry picking" authorization method.

That is exactly why customers still gravitate to paper-based guarantee—simplicity and control. It's simple



Many merchants prefer (yes, prefer) to deposit their paper checks and hold, touch and caress their beloved bank deposit receipts. Heck, some of them may even sleep with the receipts tucked neatly under their pillows.

because many guarantee companies, including Secure Payment Systems, do not require peripheral check reading devices, even though they are beneficial.

In the interest of science and humanity, regarding potential fraud, when was the last time you thought about how easy it would be to obtain five bank accounts in one afternoon versus five unique, valid drivers licenses?

Many merchants are also afraid of "new stuff;" after all, from their perspectives, if something isn't broken it doesn't need to be fixed.

The control aspect is even more far-reaching. Many merchants prefer (yes, prefer) to deposit their paper checks and hold, touch and caress their beloved bank deposit receipts. Heck, some of them may even sleep with the receipts tucked neatly under their pillows.

Many merchants prefer to selectively guarantee the transactions of their choice in order to avoid paying discount fees on their frequent customers.



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It's a Catch-22 situation if you ask me. I can describe all the reasons a merchant should move to a conversion/guarantee environment and all the reasons an MLS should also embrace a conversion/guarantee environment. And yet, paper is still king today.

Many merchants don't even know if they are being properly compensated for each batch unless they call their banks or access accounts online (assuming they can go online). With paper-based guarantee, merchants generally get funded more quickly by going to the bank each day than they would be with 48- to 72-hour ACH settlement from the conversion provider.

Finally, consider the goodwill issues that concern many local merchants when long-time or frequent customers accidentally bounce a check. The customers are often subjected to third-party collection efforts and not offered the benefit of initially being contacted by the merchant.

What is the biggest myth of all? That consumer debiting and settlement in the ACH world is real-time. Nevertheless, and despite all the nay sayers, we are proponents of check conversion.

For every merchant objection cited above, there is gener-

ally a corresponding satisfactory answer to mitigate those concerns.

Let's face it: Guarantee companies are major beneficiaries of a paper-based world. The accounting issues of immediate funding and items rejected by the ACH go away. Using imagers or retrieving images eliminate those concerns. If the guarantee company doesn't want to pay a claim, it doesn't—and it does so without first having paid it up front. Moreover, bank deposit fees and bad check service charges still belong to the merchant.

It's a Catch-22 situation if you ask me. I can describe all the reasons a merchant should move to a conversion/guarantee environment and all the reasons an MLS should also embrace a conversion/guarantee environment. And yet, paper is still king today.

Granted, the landscape is changing; POS equipment continues to become smaller, faster, cheaper, and more capa-



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ble of enabling multiple applications.

As price points continue to fall (in much the same way they did with personal computers), I believe the prevailing merchant attitude will be inversely proportional and subsequently pick up steam in a dramatic way.

Whether a merchant is set for manual deposit or conversion, the question "Why use guarantee versus a simple verification process?" is largely an issue of control and philosophy.

If one properly defines (and "properly" is the key word because we may each define it differently) and then adds up all the cost elements of accepting checks in a verification environment, the resulting analysis relative to check guarantee would,

in my mind, be quite clear.

These cost elements include restrictive check acceptance policies that result in reduced sales volumes, which by definition should include the cost of replacement sales volumes processed via different methods at different costs (i.e. credit card rates, etc.)

Unfortunately we don't have the space available here to attack that hornet's nest. Before you can address the differences between the two services, you have to clearly understand the differentiating capabilities and unique characteristics of the companies involved in those two arenas.

This is especially critical when comparing the risk management systems that, if they are superior, can more than offset the core collection

competencies of a rival competitor. After all, it is still more cost-effective to stop the fire before it starts.

Expertise in risk management will win hands down every time, considering that lower pricing can be proffered to obtain the same gross margin as the also-ran struggling and depending on collections to make up higher loss percentages. ■

Lin Fellerman is Founder, President and CEO of San Diego-based Secure Payment Systems, a national provider of electronic check and gift card processing services. Prior to founding SPS in 1996, Fellerman was formerly a 20-year employee and 10-year President of Telecredit/Equifax Check Services (now Certegy Check Services). To learn more about SPS look them up at www.securepaymentsystems.com or send an e-mail to lfellerman@securepaymentsystems.com

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So You Want To Be Your Own ISO?

By David H. Press

Integrity Bankcard Consultants, Inc.

Integrity Bankcard Consultants, Inc. gets calls every week from Merchant Level Salespeople (MLSs) and individuals who want to branch out, spread their wings and become ISOs. They dream of making the big money. They all want to get the best deals. Most don't want just a portion of the residuals—they want it all.

For most of these callers, it's time for a reality check. Many of them are not ready to make the jump to the level on which they envision themselves to be. One key factor: They don't have the money to register as an ISO with the card associations. (See my article, "Visa's Agent Registration in a Nutshell," *The Green Sheet*, Nov. 10, 2003, issue 03:11:01.)

They don't have the resources to fund a processor's initial reserve account upfront. Most processors require that the ISO establish a deposit account when they're initially executed, to secure the performance of the ISO. These accounts are typically funded as follows:

- The ISO funds the reserve account in an initial amount upon execution of the agreement.
- Each month, the processor debits from the compensation payable to the ISO and deposits into the reserve account the amount necessary to maintain that reserve account. The amount is equal to the initial amount, plus a certain number of basis points of the gross dollar volume of the aggregate merchant transactions processed during the preceding two months.

Many of these prospective ISOs don't have a formal business plan. However, most processors require that a detailed business plan be submitted as part of the application process.

Often an underwriting guide and a risk monitoring guide are also required, particularly if the ISO will be taking on the risk. It's important that the principals of the ISO have good credit, as a personal guarantee is usually necessary.

We have found that many of the potential ISOs who call for information want the minimum commitment fees lowered. Most direct deals require a minimum amount of fees to be generated by the ISO's portfolio in each processing year (including year one).

The ISO is required to and shall pay the processor for services sufficient to generate aggregate fees at least equal to the minimum fee in the agreement. Suppose an ISO signs an agreement with a first-year minimum commitment of \$150,000. If the merchants placed by the ISO during that first year time frame generate only \$90,000 in fees, the ISO will owe the processor \$60,000, putting the already under-funded ISO pretty much out of business.

Some of these big dreamers even want to be able to approve merchant applications themselves, but they don't have sufficient experience to properly underwrite the applications or to monitor the risk.

They should understand that processors follow an application review and risk analysis process that generally covers, at minimum, the following areas:

- Determining whether the merchant is an acceptable type of business (often using Tier listings based on industry experience and the risk tolerance of the member bank)
- A review of projected sales volumes and processing methods
- Determining whether the merchant has been placed on the Member Alert to Control High-risk Merchants (MATCH) or Terminated Merchant File (TMF) lists
- The personal guarantor's (owner, officer or principal) credit history
- Conducting an inspection of the merchant premises per MasterCard and Visa rules
- Verifying that all paperwork is properly completed and all required signatures are properly affixed
- That all required documentation was properly filled out and submitted with the merchant application and verified

If the ISO takes on the underwriting and risk, it is still unlikely that the processor and member bank will allow the ISO to process for all types of businesses and for high volume/high risk businesses. While the ISO will likely receive increased residuals if it does the underwriting and takes on the risk, the processor will want an increased reserve.

The ISO's initial operating costs will increase substantially due to the increased labor costs involved in taking on the underwriting and risk monitoring processes.

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For most MLSs with limited capital seeking to go out on their own, the best advice is to start small. Initially, they could become an agent for a larger ISO. This could be as an Independent Sales Organization (ISO), which allows the agents to market in their own name, or as an Independent Contractor (IC) with lower card association registration fees. They could then develop a portfolio that will generate a monthly residual income stream.

The ideal arrangement would allow them the portability to take the merchants with them later on when they decide to take the next step and work directly with a processor. They should try to avoid programs where they can't move the merchants and can't sell their residual stream.

They should always make sure when signing any agreement that they will continue to get paid. An

agreement at this level should not include any liability for merchant chargeback losses.

MLSs and agents should consider the following when evaluating a program's flexibility:

- It should not be an exclusive relationship
- It should not include a covenant to not compete, which can be a barrier to taking the next step
- There should be no geographical boundaries. An agent should be able to work and sign up merchants anywhere
- There should be no mandates on equipment sales. An agent should be free to determine what credit card processing equipment to sell
- It should offer a high approval rate on hard-to-place clients, if that is part of your marketing plan
- It should include an open-book policy. The agent should have access to monthly statements to

ensure that residuals are being properly computed and paid

- An arrangement that allows the agents to run their businesses as they see fit

Going out and becoming your own ISO is a big step for any MLS. Invest the time to find the best arrangement for your situation and to help you reach your goals.

It's essential to make sure that any agreement will not limit your growth, but instead will help your progress toward the next level.

While the road to success is littered with the bodies of those who have failed, there are many who learned from failure and found success. ■

David H. Press is Principal and President of Integrity Bankcard Consultants, Inc. Reach him by phone at 630-637-4010, e-mail to dhp@integritybankcard.net or visit www.integritybankcard.net.



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Processing in the House

By Ann All

ATMMarketplace.com

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For the past decade, ISOs have focused on growing their ATM fleets by building direct and indirect sales forces—and more recently through portfolio acquisitions.

With opportunities for new sites dwindling, the emphasis is shifting to wringing more profit out of existing sites, either through cost control or growing volumes with new transactions.

Combine that with acquisition activity among transaction processors—with two popular third-party processors being acquired by Concord EFS in 2002 (and Concord in turn being purchased by First Data earlier this year)—and more ISOs are considering driving their own machines.

ISOs are evolving, said Alan Falconer, Senior Vice President of Paragon Data Services, a consulting firm that

advises both financial institutions and ISOs on their EFT strategies.

While many ISOs once had to run their businesses on a shoestring, he said, "now we're beginning to see a point where the strong have survived" and built up enough capital to consider investing in their own switch.

Turnaround Times

"Some of them are tweaking their business models; the new models will require more than simple cash withdrawals," he said.

It's more logical to offer products and services such as money orders and prepaid phone top-ups at ATMs in retail sites rather than bank branches, Falconer said, because the demographic profile of retail customers matches the profile of typical users of such services.

A desire to offer new products and services was one reason that Money Marketing, a New Jersey ISO, purchased Mosaic Software's Postilion processing platform in 2001, said Eric Park, Chief Executive of Innobeta, the transaction processing entity spun off as a separate business from Money Marketing.

"Everybody had been talking about new products like prepaid media for a long time, but none of the processors had developed applications for them," Park said. Innobeta was able to create and certify a prepaid phone top-up application on the Postilion platform within six months, he added, and is now offering it on some ATMs.

"People who weren't interested in talking to us a year ago are now contacting us as their existing (transaction processing) contracts are starting to expire," said Chris Klein, Mosaic's Executive Vice President of Marketing. "The processors haven't been as responsive as they would have liked to in their desire to add new products and services on their ATMs."

Postilion software is used by non-bank notables including Columbus Data Services, E*Trade Access, Nationwide Money and 7-Eleven, Klein said.

It's the Economy, Stupid

Simple economics drove David Charles, the President of Wisconsin-based ISO Cash Depot, to install his own switch in 2002, using the software of TNS Smart Network (TNS). Charles said he was able to shave several cents off of each transaction.

"When you're talking about hundreds of thousands of transactions a month, the pennies add up pretty quickly," he said.

With continued consolidation among third-party proces-



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sors, Charles said, processing prices will likely rise rather than drop in the future.

"As the marketplace changes, this gives us more control over our costs," agreed John Steely, President of Automated Systems America, Inc. (ASAI), a California-based ISO that recently completed installation of a switch with the assistance of TNS.

The costs of transaction processing software and hardware have dropped dramatically in recent years and now average less than \$200,000, said Mischa Weisz, Chief Executive of TNS, which has helped nine North American clients establish switches. That does not include costs of the accompanying infrastructure, including items such as a back-up power source, T1 lines for offering Web monitoring and a climate-controlled computer facility.

Those costs can add several hundred thousand dollars more to the tab, Charles said, though tough negotiations with vendors can help keep the price tag under control.

"You can't just buy some computer servers and stick them anywhere," Steely said, noting that ASAI constructed a new room to house its switch and brought in outside IT consultants to help with the initial set-up. Fortunately, because of ASAI's southern California location, the IT resources were fairly inexpensive, he said.

Despite the added costs, Steely said running an in-house switch can become cost effective with as few as 250,000 transactions a month.

In Control

ASAI first began looking at driving its own ATMs when its former processor, EFT Logix, was purchased by Concord. "We figured it might be time for us to get control of our own destiny," Steely said.

Doug Falcone, Chief Executive of Access to Money, a New Jersey-based ISO that outsources its processing to a single third-party provider, said that he seriously considered establishing an in-house switch when he began shopping for ATM portfolios. Access to Money purchased 750 contracts from Automatic Bankcard Services in late 2003.

"Having your own switch gives you more control," Falcone said. "Let's say you've spent a lot of time and effort moving your ATMs away from a certain processor because you've been dissatisfied with their service. You could acquire a portfolio and find yourself right back in bed with them again."

Plenty of Planning

Steely said a certain degree of IT savvy is helpful, particularly in the early stages of moving a switch in-house.

"We've always liked the IT part of what we do. Just being an ISO was a little boring for us."

Operations experience is more crucial than actual IT chops, Falconer said. "Most ISOs have outsourced processing and thought of it as a commodity, so they haven't thought about all of the support that may be necessary."

Indeed, planning for an in-house switch can take far longer than the actual implementation. Park said he spent more than a year in the planning stages, a time filled with anxiety, he said, because "you're sinking all kinds of costs into the project without seeing any kind of payback."

Charles said he spent an equal amount of time, roughly six months, on planning and actual installation. Perhaps the single most important aspect of planning, he said, is ensuring that there are multiple options available for such critical functions as telecommunications.

"If you're relying on a single phone company or a single ISDN provider and it fails, you're out of business," he said.

Fear Factor

Fear of the unknown is one reason that Falcone continues



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to work with his longtime processing partner, Lynk Systems. "It's what you're not being told and what you're not seeing that could trip you up," he said. "There's a lot of additional responsibility involved, from compliance, to certification, to network regulations. Lynk and Concord and Columbus Data have years of experience doing all that."

Klein suggests creating a checklist, noting areas where outside help may be needed and compiling a list of possible partners to address those issues—a process that he said can become quite involved. "None of the pieces is a real big mystery—but there are a lot of pieces," he said.

Expert help is available for solving potential problems, he said. "If you're concerned about your telecommunications, you can get someone like Transaction Network Services to set all that up for you.

Someone like Thales e-Security can help you with your data security."

Sharing the Love

ASAI has moved 40 ATMs to its new switch and is in the process of migrating more. However, it will also continue to offer processing through Genpass Technologies, Steely said.

"That will enable our clients to put their customers with whichever switch best suits their needs," he explained. "Some people only want to work with big companies; they'll want to stay with Genpass. Other people would rather not work with big companies. It's mostly psychological, of course, but this way we can offer them an option."

ASAI is creating a new division called Datastream, which will market processing to other ISOs, Steely said. "We're not going to compete

with a Genpass or a First Data on a national level. But we can compete with them on a local level, with clients that are small enough to be under their radar screens."

By offering processing, ASAI will have fewer worries about losing revenues if any of its sales agents seek direct admittance to EFT networks through a sponsor bank, Steely said.

Innobeta currently drives some 5,000 ATMs, a combination of machines under contract with Money Marketing as well as some managed by other ISOs and a small number owned by financial institutions, Park said.

Cash Depot drives some 1,000 ATMs it has under contract. It does not provide processing to other ISOs, largely because Charles does not want to assume the direct responsibility of ensuring that processing



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clients comply with the appropriate network regulations.

"Why would you want to get in the middle of all that? It's just too difficult to control what ISOs are doing out in the field," he said. "When I start getting into that, I'm competing with Concord; that's not my objective."

Compliance is a major issue, Steely said. "You have to run a clean, tight house. If you've ever had any major compliance issues as an ISO, you're not going to be able to pull off being a switch." ASAI recently hired a private auditing firm to help document its compliance procedures and policies, Steely said.

Can See Clearly Now

A key advantage to an in-house switch—and one appreciated by retail clients—is faster settlement and reconciliation of funds, Klein said. Retailers also welcome the ability to monitor transaction data on a real-time basis. "They're good businessmen, so they really appreciate the ability to be proactive in dealing with any problems at the ATM."

Running one's own switch offers a more comprehensive view of transaction data, Charles said, which makes it easier to track chargebacks and other transaction reversals. "When it's coming from the machine right to us,

we're seeing all of the data rather than just a portion of it."

Not for Everyone

While running an internal switch offers obvious advantages, it likely isn't for everyone, Falcone said. "I think it's important to look at where you've been and where you want to go. If you overextend yourself, you run the risk of becoming a jack-of-all-trades and master of none."

Weisz expects interest among ISOs to grow, as more decide to take the processing plunge. "It's kind of like 'If Mr. Smith can do it, Mr. Jones can do it, too.'"

However, he urges ISOs to weigh all alternatives carefully. In fact, Toronto-based TNS recently established a new United States division called Smart Processing Solutions to offer processing services to ISOs not inclined to do it themselves.

"Getting your own switch is a little like getting a car with quite a bit more horsepower than you're used to," Weisz said. "You have to make sure you're going to be comfortable driving it." ■

Original: www.atmmarketplace.com/news_story.htm?i=18975

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Product: Ingenico 7770

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With the increasing practice of credit card skimming—and consumers' growing awareness of this type of fraud—more dining establishments are looking for "Pay@theTable" solutions where the transaction is initiated and completed in the customer's presence. Ingenico recently released a wireless point-of-sale terminal, the I7770 targeted to these types of retailers.

The I7770 uses Bluetooth, a highly secure, short-range wireless technology specified to transmit data over 110 feet, or between 20,000 to 40,000 square feet; however, the technology has been tested for transmitting data up to one-quarter-mile in distance.

Restaurants aren't the only merchants that might benefit from this type of solution: It suits retailers, QSRs, convenience stores, auto rental, drive-through dry cleaners—even stadiums and concert halls—or any business that requires a portable payment terminal.

Bluetooth is the name for a wireless technology standard conceived initially by Ericsson Mobile in 1994 while studying the feasibility of a low cost, short-range radio interface between mobile phones and accessories.

According to the official Bluetooth Web site, the technology is named



after Harold Bluetooth, a Danish Viking and King who controlled Denmark late in the 10th century.

Here's how the technology works: a Bluetooth chip transmits information at a special frequency to a receiver Bluetooth chip. For instance, a Bluetooth chip in a portable payment terminal would transmit data to a receiver Bluetooth chip in the device's base.

3Com, Ericsson, IBM, Intel and Microsoft have all adopted Bluetooth; and in the payments industry, Ingenico is one of the leaders leveraging this technology.

The I7770 comes with either a 16- or 32-bit processor; 1MB SRAM and 4MB Flash; an integrated thermal printer; and an integrated PIN pad. The device is Visa PED and 3DES approved and contains a magnetic



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Ingenico now offers this POS wireless terminal in the United States and is selling it through acquirer, ISO and MLS sales channels.

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Company: Triton

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These include dial-up communications, TCP/IP capabilities, a Triple DES-compliant encrypting PIN pad that meets all existing international security standards, and text-to-speech audio transactions to meet current and proposed Americans with Disabilities Act (ADA) requirements for visually impaired customers.

For retailers, the RT2000 incorporates a flexible package of revenue-generating functions such as Western Union Money Transfers, PaySpot pre-paid wireless top-ups and CashWorks check cashing.

Its through-the-wall design gives retailers a way to generate fees from transactions around the clock, even when their premises are closed.

The RT2000 is available with Triton's new high-capacity multi-cassette mechanisms: the TDM-200, with two 550-note cassettes, and the TDM-250, with two 1,300-note cassettes. The dual cassette mechanisms let operators load the machines with different bill denominations or currencies.

Both cassette units have a mechanism life of 250,000 notes requiring no preventative maintenance. Triton's cash dispensing technologies are designed to be durable and to reduce the frequency of cash replenishment and service calls, yielding further savings in the RT2000's operating costs.

Triton's new ATM is designed to be visible and accessible to customers from the sidewalk, lobby, parking area or mall atrium. The RT2000 includes a 6.5" color display, an 80 mm thermal printer presenter and a multi-lingual customer interface.

The RT2000 also features the reliability, ease of operation and low costs of ownership and maintenance for which Triton products are known. ■

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"I have not failed. I've just found 10,000 ways that won't work."

— Thomas Edison



Making Lemonade Out of a Bad Day

You finally scheduled the first meeting with that hard-to-nail-down prospect. Driving to the merchant's location, the freeway was jammed and the surface streets were clogged, too. You're late for the meeting and rush in to meet the merchant. When you get there, you're so flustered you spill coffee down the front of your white shirt. Then, as you start the presentation, your laptop crashes.

Things appear to be going from bad to worse. You're not just having a bad day; this one has all the makings of a *really* bad day. What do you do?

Take a deep breath and a mental step back. Count to five. You need to realize that your customer is going to be "reading" you, just as you look for signals from him or her. The prospect will pick up on and possibly misinterpret any negative feelings or attitudes you project. Put aside the needs of your ego and focus on the needs of the customer. Your bad day is meaningless to the prospect.

INSPIRATION



Apologize, but don't make excuses. In fact, don't even get into the details of what happened. The prospect doesn't need to know, and probably doesn't particularly care, that you used an online map service and it gave you poor directions, or that your laptop got a virus last month and hasn't been the same since. You're there now—simply apologize and move on. Your time, and your prospect's time, are too valuable to waste on explanations.

What if you don't get this deal? You might very well get the account, but even if you don't, get over it and move on to the next one. Everyone has bad days, so don't dwell on it and let one turn into three, four or even more. Accept it for what it is—just one bad day. Move forward with the attitude that the next one will be better.



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ETA's Expo Network

Highlights: ETA's Expo Network is a series of low cost, easily accessible tradeshows and educational programs targeted specifically to ISO and merchant level salespeople (MLSs), held in various geographic areas of the country. As a standalone venture, the ETA Expo Network provides ISOs/MLSs affordable local access to a tradeshow and quality education. For companies that employ independent sales agents—and in particular those that hold ETA membership—this becomes an additional benefit through the provision of business and educational opportunities to their workforce. ETA University courses and a full agenda of sessions, expo and networking at meals and receptions are all planned. ETA members and Affiliate Service Provider (ASP) members receive discounted registration; all attendees receive discounted hotel room rates.

When: June 24 – 25, 2004

Where: Hyatt Regency La Jolla/San Diego, Calif.

Registration: Visit www.electran.org or call 800-695-5509

Midwest Acquirers' Association MWAA Second Annual Conference

Highlights: This regional association's inaugural conference last year brought 400 payments industry professionals together; they're expecting an even better turnout this year and the venue was selected to accommodate the increased attendance. The focus will be on discussions of relevant issues and plenty of meeting time with vendors. Presentations will cover value-adds, interchange, compliance, fraud, POS innovations, Check 21 and the changing role of the MLS. Receptions, meals, a luncheon cruise and golf tournament are also part of the fun. MWAA will also present its second "Lifetime Achievement Award" at the conference and is currently accepting nominations. An opportunity to participate in a related seminar on Wednesday, July 28, "Field Guide for the Developing ISO," is available either as part of the conference or separately. Attendees can take advantage of the discounted hotel room rate.

When: July 28 – 30, 2004

Where: The Drake Hotel, Chicago

Registration: Visit www.midwestacquirers.com

You've heard the expression, "When life gives you lemons, make lemonade." There are tricks to turning a bad day around and learning something from it. Now you know to bring a hard copy of your presentation for backup, just in case. You can still download and print the directions from that Web site, but from now on, you will also go "old school" and carry your trusty road atlas. And you might also even keep an extra white shirt in the car, just in case.

Selling the *How* Not the *What*


When you meet with a prospect, don't talk about your product. Yes, you read that correctly, do not make your product the focal point of your presentation. Instead, bring the attention to *how* your product or service benefits the merchant, rather than *what* it is.

Chances are, you have competitors that sell very similar products. Prospects don't need to know what you're selling as much as they need to know how it will help them run the business more profitably. You should be armed with information and be able to explain specifically how these benefits are different and better than those offered by your competitors.

For example, if one of the services you're selling is a Web storefront, a few informative sentences about what an Internet storefront is should suffice. Then move on to what your product does for other business owners you've worked with, and what it can do for this one.

Does it increase sales? Make sure you can give specific examples of how it has increased sales, including dollar figures, whenever possible. Does it reduce paperwork? Again, cite concrete examples of types of paperwork eliminated and what the saved time can mean (reduced payroll costs, more time to spend with the family). Does it simplify inventory? Have specific, relevant examples ready for this prospect to easily relate to his or her business.

Many times, the decision to buy has already been made even before you begin to speak, but the decision regarding from whom to buy has yet to be determined. Focus on the benefits to the merchant's business, and your prospect will have no choice but to partner with you.

Good SellingSM

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