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

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Nightmare on E-commerce Street

A patent-infringement lawsuit filed recently in a California court could alter the face of doing business on the Internet and potentially could be costly to every merchant who advertises and sells products via a Web site.

On April 4, 2002, 11 non-related businesses (see chart, Page 8) were served with a lawsuit by PanIP, LLC of San Diego. The suit contends that PanIP's two U.S. patents cover Web sites that contain both text and graphics and are capable of obtaining credit card or other financial information from consumers in order to process sales. It appears that PanIP contends that virtually every e-commerce Web site in the country infringes its patents unless otherwise licensed by PanIP – an eye-popping presumption, to be sure.

According to documents filed with the Superior Court for the Southern California District, the patents involved in the alleged infringement were designed, developed and filed by an inventor named Lawrence B. Lockwood. U.S. Patent No. 5,576,951 was issued to Lockwood on Nov. 19, 1996 for "automated sales and service system." Corresponding U.S. Patent 6,289,319 was issued to Lockwood on – of all days – Sept. 11, 2001 for "automatic business and financial transaction system."

PanIP (which stands for Pangea Intellectual Properties) was formed as a

See E-COMMERCE on Page 8

Notable Quote:

Electronic prepaid card programs have great potential for helping acquirers and ISOs generate new revenues from the point-of-sale. No one wants to kill the goose that laid this golden egg.

See Story on Page 26

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Visa courts Debit

"The truth is, I've been my own worst enemy for *years*, and I'm SICK of it. So I was wondering if *you'd* be willing to be my own worst enemy for a while!"

Fight against Fraud Lacks Punch ...

Dear Paul,

The article that you had on fraud was interesting. We have been trying to fight this epidemic for years.

I tried it with Corey Saftler (President, Integrated Leasing) when he sent a letter to all of the leasing companies. The so-called pioneers were not interested. I even started a Web page on our site to add the terminated vendors, called the VTF (Vendor Terminated File). We asked leasing companies and other processors, MSPs and ISOs to submit the list so that we could update the database from time to time. No one responded. The page is still up on the site without data.

It's about time we get these CROOKS out of the industry.

Thanks,
Bobby Joseph
Allied Leasing Group, Inc.

... But Here's Something To Try

As an ISO in the industry, I have contacted a number of well-known companies with proof of misleading and sometimes bordering on illegal activities of agents. Yet these same companies have promoted some of them to management.

The lease company with which I have a relationship through my processor has a great system to help prevent fraud. At the time of installation, I call. They then call back on the merchant's phone to get oral verification.

I am sure there are some companies that have more time to waste trying to figure out how NOT to work. They have to be putting more effort into that than simply doing their job properly.

I enjoy receiving my Green Sheet!

Paula Harris
Modern Payment Merchant Solutions

FORUM

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Heroic Effort on GSQ ...

The May issue of GSQ rocks! In all honesty, it was the comic book style format that inspired me to read the articles. The "You Gotta See" layout on Page 34 is priceless. Great work!

AnnJo Huwer
MSP Business Development Manager
NOVA Marketing

... Especially on the Survey

Paul:

Just read the latest issue of GSQ this weekend. Maybe The Green Sheet Fraudbusters need to go ahead and join up with Agent PC and RiTA. We can form our own superhero outpost, eh?

The ECC (Electronic Check Conversion) survey that you completed was right on. Just the kind of information that makes Green Sheet publications a great resource.

I was not surprised to see such low numbers on ECC penetration. Here at GO Software, we talk with hundreds of merchants each day who are calling in to set up or upgrade or who need support for our software products. Because of this, we have a good feel for the acceptance of alternate payment methods such as ECC, online debit and even gift/loyalty cards. While our experience may not represent a normal distribution of merchants, we feel that ECC has been slow to catch on while online debit and gift cards are making better penetration.

Because larger merchants have more at stake, they are pushing online debit to reduce transaction costs. This pressure has made point-of-sale (POS) software developers get moving on changing their software to accept different payment types. Many software developers who service the medium-size and smaller merchants will

follow suit as the merchant base becomes more educated and accustomed to seeing the Wal-Marts of the world adopt these technologies. We know that the developer community is now working to make more payment options available.

Our experience shows that there are a few barriers that merchants have to overcome to implement new ways to take payments. Two of these barriers seem to be prevalent.

First, a large percentage of merchants out there are processing payments using old technology, which comes in the form of hardware terminals, stand-alone PC products or an integrated POS system running on an MS-DOS or Windows platform. The switching costs are high. These merchants need to see a good return on investment for converting to new hardware or software. Merchants are very hesitant of having to spend money to adopt new payment types.

Another major barrier is the hassle factor/fear factor of change. This comes into play more often than you might think. Many merchants would like to use new tender types but want to keep the way they do things just as it is. PIN pads, check scanners and readers all represent more stuff that needs to be hooked up, more training for their clerks and more hassle.

Remember, Sally's Flower Shop is in the business to sell flowers, not to deal with payment hassles.

To overcome these barriers, we all need to do a good job of educating merchants and providing easy-to-use tools so they can forge new payment frontiers.

It will take some time for this cycle of change to filter out into the merchant community. The good news, though, is that all of this is just a big cycle of change that keeps this industry fun and alive.

And thanks for having a bit of fun in your GSQ comic book issue. Keep up the good work.

Best regards,
Tony Abruzzio
Executive VP/GM
GO Software, Inc.

Trying to Connect to Wireless

Mr. Green,

I am looking for market stats and forecast information on wireless POS in the U.S. and Canada, if available. Do you have any research available in this area -- or do you know of any elsewhere?

Regards,
Ernie Chatham
Soft Tracks Enterprises

Ernie:

The August 2000 issue of GSQ was our in-depth report on the wireless marketplace. The August 2001 issue of GSQ was a report on the equipment market overall. The September 2002 GSQ will be an update on the equipment market.

Our GSQ publication will be available online by mid-June. However, we can send a complimentary copy of a limited number of our back issues (some are now out of print). All of our back issues of GSQ will be available online shortly.

Good Selling!
The Green Sheet Staff

CORRECTIONS

• The name and title of EZCheck executive Michael Smith was cited incorrectly in the May 2002 edition of GSQ (Vol. 5, No. 2). He was erroneously referred to as Michael White. Smith is Vice President for Sales/Marketing.
• The name of Certegy executive Larry Towe was misspelled in the May 2002 issue of GSQ (Vol. 5, No. 2).

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E-COMMERCE from Page 1

limited liability corporation in March 2002, the same month the complaints originally were filed. Not much other background information was readily available. Company officials are not speaking to the media because of alleged misquotes, according PanIP's attorney, Kathleen Walker. The company's Web site consists of a homepage that offers no data of any kind, save two text icons. One icon for "stats" requires a password to access, and the other icon for "patent directory" is non-functional.

However, Walker was willing to talk about the lawsuit. She said Lockwood has been an inventor in the computer field since the early '70s and has a number of e-commerce-related patents with another pending. Walker confirmed that PanIP is a limited liability corporation with a board of directors and less than 10 employees. According to Walker, it existed as another corporation before March 2002, but for tax and other related business purposes it was restructured as a limited liability corporation.

One of the first questions that comes to mind, of course, is why PanIP is undertaking this action.

"This is how inventors make their money," says Walker. "Patent is legalized monopoly, allowing for the inventor a period of time to monopolize his invention.

"The Constitution of the United States guarantees this. You can either exclude anyone else from using it or issue licenses. My client doesn't want to put anyone out of business or make it difficult for them to do business. He is willing to license his patent."

Lockwood is seeking $30,000 from each company for the lifetime of both patents. By law, a patent is viable for 17 years after issue date. After that, a patent becomes public

Businesses Sued by PanIP

Dickson Supply Co.	Brielle, N.J.
Snow Country Sports	Rochester, N.Y.
Furniture and Things	Elk River, Minn.
Fabric Depot, Inc.	Portland, Ore.
Backcountry Experience	Durango, Colo.
Electronic Express	Nashville, Tenn.
CP Industries	Brooklyn, N.Y.
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domain, and anyone can use it after the end of that initial 17-year period without fear of lawsuit or license-fee mandates.

Another puzzling question: Why has Lockwood decided to file a lawsuit at this time? Walker says Lockwood's patents originally were filed as part of process that took years. "My client decided not to go after companies until the patent was issued," says Walker.

The choice of companies Lockwood elected to pursue is an interesting point as well. He hired a consulting firm, Chi Consulting, to select appropriate businesses to sue. According to a number of defendants, Chi Consulting accessed Dun & Bradstreet for its selection, determining proper names, addresses, credit history and gross sales.

According to Walker, all named defendants have annual sales in the $5 million to $10 million range, but she is quick to point out there wasn't a set strategy to initially sue the smaller fish in the e-commerce pond and leave the big fish alone.

"Infringement is infringement," says Walker. "There's no hierarchy. It's all up to the patent owner whom he wants to sue."

Another aspect that Walker attributes to the decision is the fact that patent-litigation costs a lot of money. "It could go on for years just to get to the point where arguments are heard," says Walker.

There are discovery motions, depositions and lots of documentation. This is a basic civil case, and since judges have a duty to hear criminal cases within a certain time period, civil cases get pushed back."

Big fish have big pockets, and since the 11 defendants named in the lawsuit don't, one could assume that Lockwood is probably hoping they will settle out of court and pay him a licensing fee. Walker confirmed that two defendants already have agreed to do just that, with a third one in negotiation.

But not all are buckling under the weight of the lawsuit. Five defendants have obtained the services of patent attorney Jonathan Hangartner of the San Diego law firm of Liu & Liu.

Walker believes Hangartner was hired because of the actions of one defendant, Dickson Supply Co. She claims that Dickson refused to settle and initiated a campaign against her client by contacting the other defendants, setting up a Web site (http://panipcase.homeip.net/) and writing propaganda related to the

ilusión

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lawsuit.

"Dickson is saying he is not going to settle, based on principle," says Walker. "I gather this from the letters and press generated from him and his group of people. Dickson wrote an open letter to everyone, saying he is being attacked. That's not fair."

Walker continues, "When you sue someone, you anticipate a fight. We're saying we don't have to fight. All you need to do to save litigation money is pay a fair fee. But if you want to go to court, we are certainly willing to do that. We believe in the patent, obviously, or we wouldn't bring a case to court that we thought we were going to lose."

In actuality, Hangartner initially was retained by another defendant, the Snow Country Sports of Rochester, N.Y., in part because of a longstanding friendship between his family and the owners of Snow Country. Hangartner subsequently talked to the other defendants to see how they wanted to respond to the lawsuit.

As a result, four others, including Dickson, chose to fight the lawsuit and joined forces with Snow Country. "My clients agreed they did not want to pay what they saw as a ransom to this guy and have pooled their resources," says Hangartner. "They have collectively filed a motion to dismiss."

The papers were filed in court June 10, 2002. The motion to dismiss contains variations on a request for dismissal, including lack of jurisdiction for some defendants, but all specify a failure by PanIP to state a legitimate claim of infringement against them. Basically, they see the complaint as inadequate and vague.

"We believe this is a frivolous case," Hangartner says. "There are no merits to this case. We believe the patent does not cover any form of e-commerce."

Does Hangartner believe his clients will win? "I am a trial lawyer, and most trial lawyers who think they have a slam-dunk case will tell their client they have a 75% chance of winning," he says. "In this instance, I'm telling my clients we have a very strong case, but I'm not putting a percentage on it."

Aside from his clients who already have come under attack, Hangartner sees other companies vulnerable as well. "I believe all companies who do business on the Internet are vulnerable to this type of frivolous litigation. Anybody with a Web site is vulnerable to being sued by PanIP, but not based on what is in this particular complaint. The complaint doesn't shed much light on the specifics surrounding the alleged infringement claims."

Hangartner continues, "One of the things I found hysterical is based on what the patent claims. They could sue the U.S. Patent Office itself since the Patent Office sells stuff on its Web site as well."

If PanIP wins, Hangartner believes more retailers, credit card companies, financial institutions and even software companies will be targeted.

"If they prevail, they very well could go after everyone in the e-commerce chain," says Hangartner. "This guy would be entitled to set up licensing agreements with every e-commerce provider in the world who offers their business in the United States."

Hangartner sees a number of scenarios occurring if PanIP loses.

"If the case is thrown out, it wouldn't prevent PanIP from suing others," says Hangartner. "If the patent is invalidated, that would prevent any future lawsuits."

Obviously, the group is hoping for the latter. "This is why we are looking for industry support," says Hangartner. "We want to put this guy out of business, but to get that far in litigation is extremely expensive. We have five who are

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Dickson Supply is a third-generation family business that opened its doors in 1946. It employs 25 at its single location and is a distributor of plumbing, heating, hardware, gas barbeque equipment and irrigation products.

Dickson Supply recognized the benefits of technology early on, buying its first computer in 1981 and putting up its Web site in 1996. Its first online sale was in 1998, and since then Dickson has worked hard to develop a world-class site to complement its growing business.

"We have one of the more formidable Web sites in our retail space," say Allan Dickson, President/CEO of Dickson Supply. "This isn't a valid patent. It's using a duck, saying it's a bird, and it could cost me a million dollars to prove it's a duck."

Dickson was served at his office April 4, the same day all 11 named defendants were served across the country. Dickson immediately took the document to his Webmaster, and the two of them tried to decipher the patents in question.

"It was a horrible document to try to read," says Dickson. "I wonder what a jury would do and how they'd interpret it. My techies looked at it and commented that it resembled a high school project from the '80s."

Because of his inability to clearly understand it, Dickson contacted the plaintiff's attorney for a clarification of the alleged wrongdoings. "She asked me if I had a Web site and if I displayed items for sale on that Web site using graphics or text," says Dickson. "I said yes, and she said then I was infringing on her client's patent. It was unbelievable.

"She then asked me if I had a method for people to put in financial information for transactions on my Web site. I said yes, and she then informed me that was the other way I was infringing on the patent. She also said, 'By the way, my client has another patent pending, and most assuredly you will be violating that patent as well.' "

After his initial shock, Dickson looked for a way to avoid a court fight. "I asked her what she had in mind so that we could all get in the same corner," says Dickson. "She told me they'd want to audit me because they didn't know how much business I had transacted using the patents and that I would also have to pay a license fee in settlement of the lawsuit. When I asked her for her

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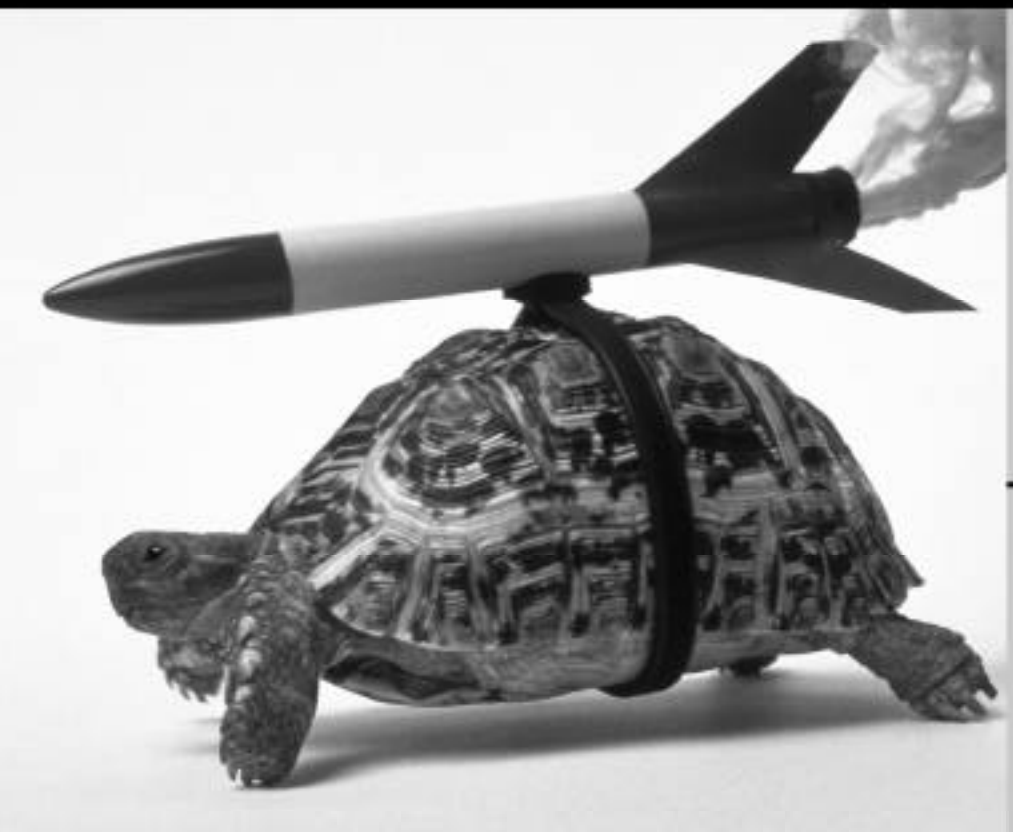

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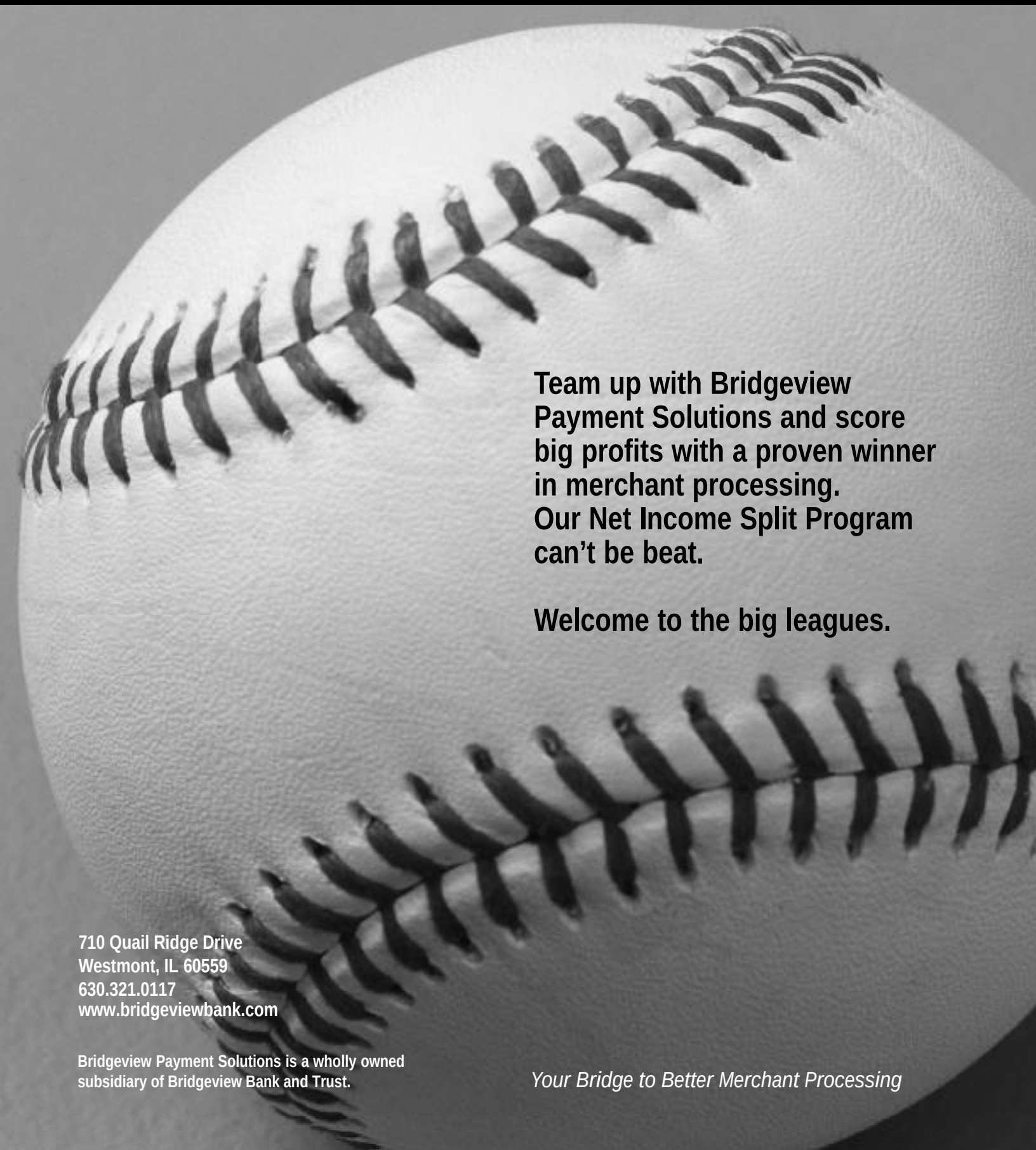

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recommendation, she advised me to call an attorney."

In his 30 years in business, Dickson never had been involved in litigation and certainly didn't have a lawyer who dealt with patent-litigation matters. He knew he had a problem. He found the solution with fellow defendants in the form of Jon Hangartner.

"We all discussed options," says Dickson. "No matter when or how it gets dealt with, this lawsuit will involve a lot of time and money in attorneys' fees. I've discovered that patent litigation is very expensive with long, ongoing technical and detailed fights. It could run into millions. The word extortion has come up in many conversations in many places."

Dickson says businesses both large and small from all over the country have contacted the defendants to offer their support.

"I'm working day and night on this situation. It's got my goat," says Dickson. "I've discussed it with Heartland, my processor. I've even discussed it with my competitors. I feel a responsibility to the business community to tell them this patent exists and this lawsuit is happening, even if we get our asses handed to us."

Dickson sees the 11 defendants as the low-hanging fruit on the tree. "It wasn't luck that we got picked first," says Dickson. "PanIP had to start somewhere. They're not looking for the biggest but the best fit for a settlement. It's all about money. They went out looking for someone just the right size to write a check as opposed to someone who was so formidable as to bring in a team of 18 lawyers and crush them."

If all 11 defendants had to pay licensing fees, the total would be $330,000, not including attorneys' fees, penalties, etc.

"If we fail and people pay up and give this lawsuit legitimacy by settling, it's going to make it harder for the next round," says Dickson. "We've been told this is just the first round and the tip of the iceberg. The word 'war chest' was even used by the plaintiff's attorney. The first round of building their war chest is trying to get 11 companies to put $330,000 on the table without a lot of sweat equity."

Dickson sees this as a gross misuse of the patent system and believes it needs revamping. "As a taxpayer and a citizen, the courts just shouldn't be burdened with crap like this," he

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A Call To Action For Authorize.Net

Authorize.Net officials want to set the record straight about what happened to the payment processor's merchant database. MSNBC.com originally reported that hackers used passwords to access merchant accounts and virtually return merchandise for funds (Green Sheet, March 25, 2002 issue, 02:03:02). In such "credit-back" schemes, funds are issued as credit to fraudulent debit cards, which in turn are accessed through ATMs. Credit-back schemes are not new criminal activities. What is new is the fact that they're being perpetrated virtually.

But the MSNBC story wasn't entirely correct, says Roy Banks, Vice President of Authorize.Net.

"We have never been hacked," he says. "MSNBC reported that someone gained unauthorized access and compromised the database. That is absolutely erroneous. There was no unauthorized access. No one compromised card numbers or consumer information."

Instead, Authorize.Net contends that hackers were successfully guessing merchant log-in IDs. Just how was this guessing game played? "It's hard for us to validate if a merchant was irresponsible with a password," says Banks. "Either they gave it to somebody who they thought was trustworthy or somebody successfully guessed it."

According to Banks, the hackers attempted to run authorizations against credit card numbers to commit card fraud. MSNBC reported the fraud was in the thousands of dollars. Authorize.Net has a different figure.

"The spirit of the story was that we had been compromised," says Banks. "We know accounts were only compromised in regard to guessing log-in IDs. We don't know if they guessed passwords. We are only aware of one instance where there actually was a credit run, and only one unauthorized credit was issued. It was a very small dollar amount. It only happened once."

In this instance, once was enough. Authorize.Net sprang to action. Within hours of discovery, Authorize.Net sent e-mail messages to its merchants reassuring them that immediate and reasonable efforts to protect the platform were in force and that it continued to be a safe haven for commerce.

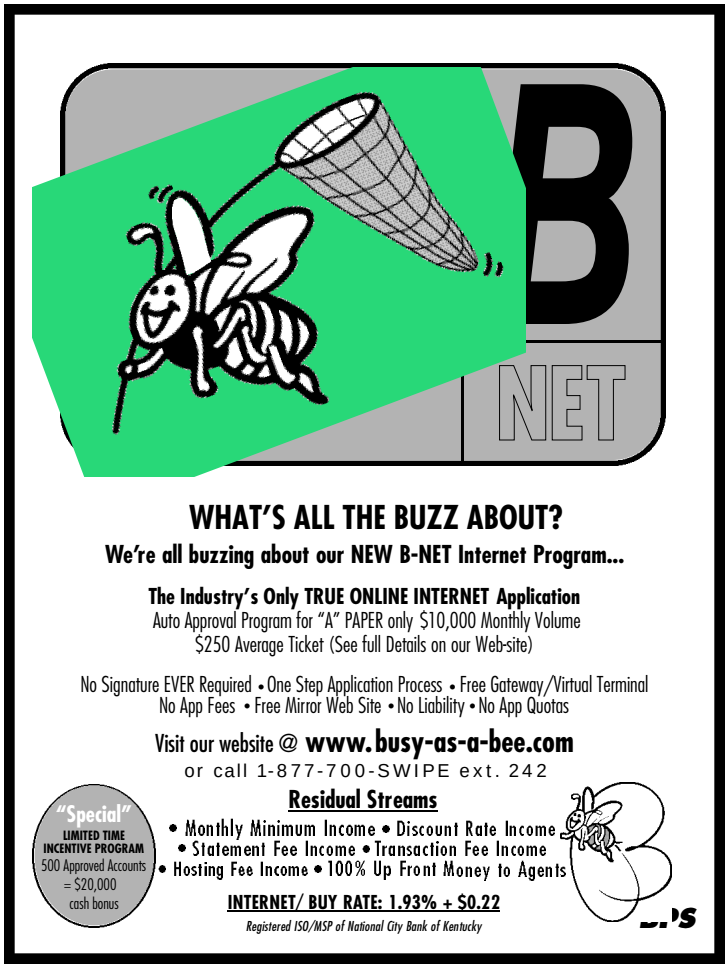
Over the course of the next few weeks, Authorize.Net continued its campaign to combat the attempted fraud and eliminate future attempts. Credit policy was changed.

"We increased the logic and rules for running credit so you could not run a credit for an amount greater than an original authorization, and it had to be tied to one already in the system," says Banks. "Prior to this, merchants could run credits without previous authorizations. Merchants move from gateway provider to provider, and you don't want to impair their business by not running a debit that took place in another system. Because of the nature of this problem, we made a decision to do it this way from now on."

Authorize.Net then put together a document titled "Best Security Practices White Paper," which discussed all of the features available on the processor's platform allowing merchants to increase their processing security. It is available at www.authorize.net.com.

The MSNBC investigative story stated that Authorize.Net had "flaws in its system." Was that true?

"It's hard for me to comment when I don't understand that statement," says Banks. "It's almost reckless. What is the reporter insinuating? We have built our system in such a way that we are making efforts to responsibly process merchant transactions. We are constantly improving our system to adapt to the needs of the marketplace. Part of



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Banks continued, "We are singularly focused in taking steps to make this industry proactive in commerce. We now have a risk-management department that is basically focused on monitoring and reporting irregular activities throughout the system. That department works with law enforcement and various card associations, such as Visa and Master Card. We've also hired an FBI veteran with 24 years [of experience in] dealing with white-collar crimes who is leading our risk-management efforts."

"It's not positive when you have this type of activity, but if you have to take something positive from it, it's a wakeup call to the industry to work more closely together."

– Roy Banks,
Vice President
Authorize.Net.

Authorize.Net is smart to bring in a seasoned professional. There is no rhyme or reason to this type of criminal behavior. There's no pattern. Random areas throughout the country are all targets of these hackers. According to Banks, most hackers are based in Eastern Europe and the Middle East.

"It fits the profile pattern of this type of activity," says Banks.

There have been no arrests in the case. How does Authorize.Net deal with merchants affected? "We evaluate on an individual-by-individual basis," says Banks. "If there is a problem recognized, we deal with the merchant individually and then make a determination."

One startling aspect of this story is that when the MSBNC reporter who broke the story contacted Authorize.Net for a comment, it was the first time Authorize.Net became aware of any fraud scenario.

Another interesting aspect is why Authorize.Net is choosing to speak out at this later date. It seems to be a question of timing and priorities.

"When the story broke, we didn't need to make a public statement to the world," says Banks. "It was our merchants we needed to contact, and we did with the white paper as well as several e-mail communiqués to resellers as well as merchants as to what we were doing. The court of public opinion was not our focus. Our customers are. If we had to do it all over again, we would have handled it exactly the same."

Obviously, the bottom line is: What was the overall merchant reaction to the story?

"Basically, we have had the support of our merchants," says Banks. "We reassured them of our efforts. We informed them we are committed to safe service. We haven't had any noticeable change to them using our systems. We've had a couple of calls and were honest and forthright in dealing with them."

.

According to Banks, the company's bottom line was unaffected: "Our business continues to be strong. We see healthy growth and appreciate the merchants sticking with us and contribute that to the efforts we've made to date and to the efforts of our resellers as well. We're working with several partners and are setting an example with our commitment to working with various value chain partners. It's been a good experience. We've learned a lot about issues of security."

What is the message to take away from this? "It's not positive when you have this type of activity, but if you have to take something positive from it, it's a wakeup call to the industry to work more closely together. Authorize.Net is committed to making our platform a safe place for our merchants. We are looking forward to the future and our ability to help shift the focus of the industry more toward security and safe commerce."

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Changing Times, Changing Product Mix

INSIDER'S REPORT Patricia A. Murphy

One of the hallmarks of the payments services business, I've come to understand, is its resilience. Just when you thought there was nothing new service providers could come up with to enhance the point-of-sale experience – let's face it, smart cards haven't taken the check-out by storm, nor have electronic checks – loyalty and gift card applications hit their stride.

I've been waiting, personally, for this since Christmas 2000, when my brother and his wife gave me a gift card from Home Depot. I had recently moved and was in the midst of many home projects. For obvious reasons, I found myself shopping at Home Depot, and for much more than the value of the card.

I'm sure an outcome of this sort was on the minds of Home Depot executives when they implemented the gift card program. But it struck me as a fairly expensive undertaking that could be justified by only a few dozen of the nation's largest retailers.

Today, I'm told, 85 of the top 100 retailers in the U.S. have a proprietary gift and/or loyalty card program that uses mag stripe card technologies. Nearly half of all American consumers have used prepaid gift cards, up from 11% just one year ago, according to one survey. Some of the most optimistic proponents say there could be upward of 1 billion gift cards in circulation by this time next year, if there aren't already now.

So it should come as little surprise that trickle-down market forces are beginning to pressure middle-market retailers to follow with their own branded prepaid gift and loyalty card programs.

Jack Lance, President of Valutec Card Solutions, sees a huge opportunity for his Nashville, Tenn.-based company. Valutec offers all of the tools an acquirer/reseller needs to implement and maintain an electronic gift card program for its merchant customers. He expects a 20-fold increase in Valutec's merchant gift/loyalty card portfolio between now and the end of 2004.

"Of all the options ISOs have available to them, a closed-loop gift/loyalty card program creates the most stickiness," says Lance.

Valutec offers off-the-shelf gift and loyalty card programs that run on Verix, the multi-application terminal operating system from VeriFone.

VeriFone announced Verix a couple of years ago, with a great deal of fanfare but little in the way of real-world application. Gift and loyalty card program support is the first big score for Verix. Verix runs on several models of VeriFone POS terminals, including the Omni 3300 family of countertop terminals and the Omni 3700 family of "hand-over" devices.

Patty Colby, Manager of Value-added Applications at VeriFone, says gift and loyalty card applications are a natural for Verix. "This is the first of several new applications VeriFone will bring to the table in 2002," she says. "Verix allows you to do more with a POS terminal than anyone is doing today."

Colby says VeriFone's Omni terminals, loaded with Valutec gift/loyalty card functionality, are an affordable option for retailers with as few as 1,000 potential cardholders.

"Verix is to the 21st century what Tranz was in the 1980s," Colby added, referencing the earliest line of

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VeriFone terminals. Tranz terminals were considered workhorses; they helped drive the trend toward electronic authorization, and many are still running today, especially at small mom-and-pop stores.

Transcom Processing Services, a services reseller based in Hopkins, Minn., uses the Verix-Valutec combination to support prepaid gift card services for its merchants.

"Our offering of single source 'plastic gift certificate' transaction processing services is a very real differentiator in a commodity merchant bankcard business," says Transcom President Mark Lewis. "Merchants want a single integrated terminal/printer that can accommodate all their payment services without impacting their terminal applications and support from various processors."

The payoff for Transcom: more credit and debit card business and a new stream of transaction revenue from gift cards, Lewis adds.

Bill Blakely, President and CEO of Electronic Data Resources, based in Palm Beach, Fla., says the biggest advantage to selling Verix-based terminals is that a merchant needs only one at each check-out counter to handle everything – credit, debit, gift card, checks, etc.

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"We're not dealing with multiple terminals anymore," he says. What's more, Blakely adds, it's "significantly easier to get new products to the merchant point-of-sale."

Such as prepaid gift and loyalty card programs.

Risks are Easier to Track

Despite the obvious benefits of selling prepaid card programs to merchants, the business has had some image problems. For example, there's been a lot of talk in the industry lately about the risks associated with gift card programs, with some experts warning that gift card sales can create a large pool of unfunded liabilities for card acquirers.

Perhaps this is true. But it seems to me that an electronic (mag stripe-based) gift card program offers substantially more opportunities to control risks than the paper-based gift card programs of the past offered.

It's not unusual for paper-based programs to be compromised by employee pilfering, photocopying and counterfeiting or by unscrupulous merchants who inflate the value of purchases and pocket the difference. Many of these risks don't transfer over to electronic card programs. Indeed, the underlying technologies that support electronic card programs should make it easier to spot patterns of fraud.

Card issuers and acquirers employ sophisticated risk models today to help evaluate cardholders, check writers and even merchant account applications. Processors use similar models to help identify anomalies in transaction patterns. What's to keep these companies from using similar modeling techniques to identify potentially fraudulent transactions involving prepaid cards?

There are other options, too. Acquirers have never been afraid to price services to reflect increased risk; witness the mark-ups on card-not-present transactions.

If the risks of supporting prepaid card programs become significant, acquirers and processors can change pricing to reflect those risks. Acquirers might even consider holding some customer funds in abeyance as a cushion against liabilities that result from a high-risk merchant going out of business and leaving consumers cards that can't be used yet have value.

As I noted earlier, payments is a resilient business. Electronic prepaid card programs have great potential for helping acquirers and ISOs generate new revenues from the point-of-sale. No one wants to kill the goose that laid this golden egg.

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Wal-Mart Seeking Approval to Acquire Bank

INSIDER'S REPORT Eric Thomson

For the third time in as many years, Wal-Mart has made a run at getting into banking and financial services. This article will summarize the nature of this latest attempt and suggest reasons why the world's largest retailer appears to be committed to bringing branded financial services to its loyal customer base – and why the banking industry is just as committed to seeing that Wal-Mart doesn't accomplish this objective.

Wal-Mart's Role in the Evolving History of Retailing

The history of retailing can be characterized as moving through three stages:

Stage One: Main Street, where rural America came to town to buy supplies, socialize and learn the news of what was happening in their community and around the country.

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Stage Two: Shopping Centers in suburbia became the focus of retailing following World War II. This was in full swing during the 1960s, '70s and '80s, when freeways were built around major cities linked by interstate highways, providing access to housing tracts that supported local strip malls and regional shopping centers. The prototype was the grocery-anchored neighborhood center surrounded by a dry cleaner, drug store, bank branch and video store.

Stage Three: The Big Box retailers, following in the Wal-Mart model, have created a shopping model that incorporates all of these services (both hard and soft goods) under a single roof – with the exception of banking services. More and more consumers find these "super centers" compelling, not only for "the everyday low prices" but also the convenience and time savings of not having to get in and out their car to make five or six stops at different retailers.

The 800-pound Gorilla

You have heard the answer to the question: Where does the 800-pound gorilla go? Anywhere he wants to. For the past decade this has been especially true of the big box retailers like Wal-Mart, Costco, Target, Home Depot and Kmart, with disastrous effects for smaller, narrowly focused retailers such as the local hardware, meat market, pharmacist, department store, jeweler and grocer.

Wal-Mart announced recently that it is experimenting with selling used cars in various markets across the country. It is estimated that Wal-Mart's food sales last year exceeded those of Kroger – the country's largest supermarket chain. When you consider that between 25-30% of a household's budget is allocated to food purchases, it isn't surprising that as we drive around town there are fewer and fewer local retailers able to compete with these 800-pound gorillas.

The process has evolved to a stage where last month's lead article in Shopping Center World was "Reviving Dark Space." The banner introduction was: "Retail is struggling to cope with yet another wave of store closings. Large chains, including Kmart, Charming Shoppes, The Museum Co. and Frank's Nursery & Crafts, are shuttering units because of lackluster sales." The article goes on to explain that the passing of these retailers is not something unique to 2002. To understand how this trend impacts directly on the ISO community, one quote from the article tells it all:

"Cities from Charlotte to San Francisco have felt the pinch of store closings. An estimated 2,142 store closings were announced during the first 2 1/2 months of 2002 compared to 2,430 during the same period in 2001, according to the International Council of Shopping Centers (ICSC)."

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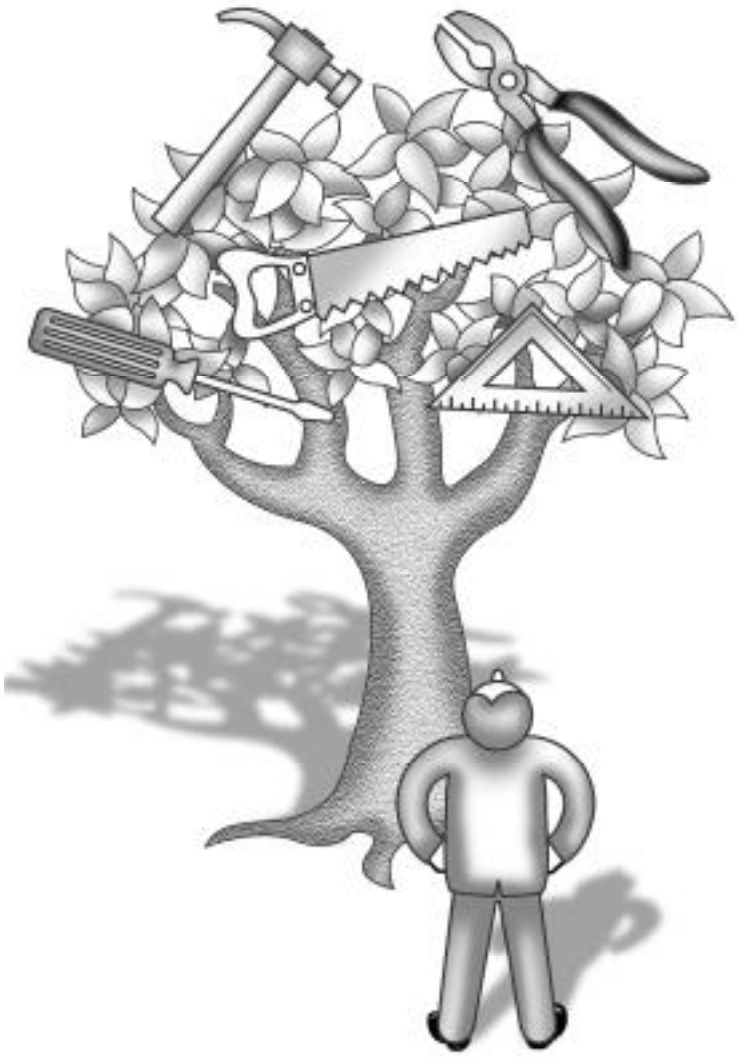

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The article goes on to explain that the surplus of space is growing dangerously large with the reduction in deals and more excess space coming on the market, giving leverage to retailers like Starbucks, fast food retailers and major big box retailers. Independent retailers can't expect to negotiate these kinds of deals.

This size handicap doesn't stop at the property-lease component of the small retailer's cost structure. Staples recently announced that it asked its top 300 vendors for a 1% price reduction and another 30 days in payment terms – following the lead of Bed Bath & Beyond and The Home Depot.

Is Banking Wal-Mart's Next Growth Objective?

According to the New York Times, Wal-Mart doesn't have ambitions to get into consumer banking with its acquisition of Franklin Bank of California. Wal-Mart's spokesperson is quoted as saying that company officials are trying to reduce their bank service fees through this acquisition. Owning a bank will enable Wal-Mart to wholesale many of its check and debit card processing costs.

To understand why Wal-Mart would purchase a bank with $2.4 billion in assets to save banking fees, you need to also understand the order of magnitude Wal-Mart represents in terms of POS transactions.

At the Payments 2002 convention in April, Michael Cook, assistant treasurer and director of financial operations for Wal-Mart, spoke for the first time about the company's experience with check conversion. During this presentation, Cook revealed that Wal-Mart accepts more than a billion checks each year from its customers.

Assuming that it is accepting this many card transactions – both debit and credit – one can begin to appreciate why Wal-Mart is focusing on the cost of POS settlement, especially when Visa last year proposed a new debit card pricing schedule that would have doubled transaction fees for all retailers.

Wal-Mart, Nordstrom and a handful of other large retailers threatened to not accept Visa debit cards if this pricing increase was imposed. Visa backed down and put off the price increase until early in 2002, another price-increase deadline that has quietly passed. Most experts would suggest that these debit price increases were shelved because of the opposition of these major retailers.

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Wal-Mart is contemplating the prospect that for each dime in transaction settlement fee savings owning a bank could generate, its stockholders are looking at another $200 million going to the bottom line. All big box retailers employ the strategy of leveraging their massive buying power to negotiate deep discounts from suppliers.

Expanding into the banking business would suggest that Wal-Mart has negotiated as far as it can working directly with its bankers. The next logical step is to move closer to the wholesale cost of financial settlement, and that means owning a bank.

Why Franklin Bank of California?

Answering this question brings us to one of the major loopholes in banking – the Industrial Loan Company bank charter. Franklin Bank is one of the few banks in the country that operates under such a charter. According to a recent American Banker article, this acquisition attempt by Wal-Mart threatens legislation that Congress is close to passing.

The larger issue is the longstanding separation of commercial and banking functions that this legislation would reduce while also allowing banks to pay interest on commercial bank deposits. Bank law specialists say that an industrial bank charter is one of the few ways a retailer, under federal law, can own a bank. There are only three states that allow such charters: California, Utah and Colorado.

The American Banker article makes clear that the independent bank association is strongly opposed to any legislation that would allow Wal-Mart to enter banking. Yet quotes from state banking authorities make clear their opposition to any changes to current regulations – including their states' rights to issue and supervise these industrial bank charters.

While the outcome of this battle is unclear, the banking opportunity for Wal-Mart far exceeds the savings it might realize from a few hundred million dollars in banking fees.

Anyone who has visited a Wal-Mart has to be impressed with the hours, low prices, convenience and, more important, the friendly service. Imagine these product features being brought to banking. Imagine the receptivity Wal-Mart customers would have toward cashing their checks, opening home loans, financing their used cars and saving for retirement. Now you understand why bankers are going to fight this effort by Wal-Mart with all of the resources at their disposal.

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Supreme Court Just Says 'No' to Visa, MasterCard

The two biggest payment associations in the world went to the highest court in the land to do battle with the planet's largest retailer in hopes of having a ruling changed. On June 10, 2002, the U.S. Supreme Court rejected the appeal by Visa and MasterCard challenging the class-action status handed down previously by a lower court.

This is the latest proceeding in an antitrust lawsuit initiated in 1996 on behalf of nearly four million retailers across the country, including Wal-Mart, Sears, Roebuck & Co., and Safeway. In turning down the appeal without comment, the justices let stand an October 2001 ruling by the Second U.S. Court of Appeals in New York, which voted 2 to 1 to allow the class certification. The case may now be heard and decided by a federal judge in Brooklyn.

The retailers accuse Visa and MasterCard of wielding their considerable influence to enforce their policy requiring merchants to accept any card with a Visa or MasterCard logo, or to "honor all cards."

In their original lawsuit, the plaintiffs allege that Visa and MasterCard force merchants to accept their branded signature-based debit cards, which are more expensive to process than PIN-based debit or credit cards. Signature-based purchases are routed through the Visa and MasterCard networks and carry higher interchange fees than PIN-based purchases, which are routed through regional networks like the STAR system.

Attorneys for the retailers argued that the district court had thoroughly examined all of the evidence before certifying the class action. The associations argued that the district judge who originally heard the case should have looked more closely at whether a lawsuit of this size, involving so many plaintiffs, would be manageable and whether the plaintiffs even have enough in common to qualify for class status.

Visa and MasterCard claim the plaintiffs are seeking as much as $100 billion from the card associations, an amount they say is so high they would be forced into settling, regardless of the merits of the claims. The retailers say the amount of damages they're seeking is much lower – between $13 billion and $15.8 billion. But under antitrust law, those claims could triple, totaling $39.3 billion to $47.6 billion. The plaintiffs say the associations included in their figures $63 billion of potential savings to merchants.

Noah J. Hanft, General Counsel for MasterCard International, said, "By not taking this opportunity to clarify the confusing standards for class certification that exist among district and appellate courts today, the Supreme Court may be opening the doors to increasing class-action abuse."

Kelly Presta, Visa USA Vice President, said, "The real irony is that when consumers choose to pay with the Visa check card, they are actually saving these major corporations money by eliminating the potential for bounced checks and the time spent processing paper checks at the checkout counter. We believe consumers should make the choice whether to use cash, check, debit or credit card for their purchases."

Lloyd Constantine, the plaintiffs' attorney, called the decision a victory for merchants and consumers and said, "The debit and credit card cartel has stalled the judicial process every step of the way, squeezing every last penny out of their hidden tax on consumers until the day they know is coming – when the courts order this policy stopped."

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Cynergy Data

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Company address:
109-15 14th Avenue, Suite 200
College Point, NY 11356
Phone: 800-933-0064
Fax: 718-463-6685
Web site: www.cynergydata.com

ISO benefits:
- Places huge emphasis on service.
- 86% of portfolio is small to midsize retail merchants and is number one processor in Hispanic market.
- All departments are fluent in Spanish.
- Bilingual services include a full suite of in-house programs for gift cards, e-commerce and electronic check conversion as well as a faxed application program.
- Comprehensive online database gives back-office capabilities to ISOs for everything from residuals to viewing merchant statements.

They Speak Your Language

Marcelo Paladini and John Martillo have found a niche not only in service but also in servicing the huge Hispanic market. These two payment-processing veterans worked for other ISOs and saw the potential for income in the industry. That vision led them to create their own New York-based organization in June 1995 under the name CPS Group, as in Credit Payment Solutions. As CPS Group expanded its suite of solutions, the two partners realized the name needed a solution of its own.

And so, in 2001, CPS Group became Cynergy Data.

"CPS Group didn't do much for us as a marketing name," says Martillo, President of Cynergy Data. "There were a lot of other CPS companies. There was confusion, and our name didn't mean anything. We wanted to come up with something newer, fresher and what we are about, which is synergy."

Paladini, Cynergy's CEO, adds, "We try to make a difference, be a little different from anyone out there with personalized services, from ISOs to merchants. That was one of the reasons why the original name didn't mean much."

What did mean a lot to these two partners was the commitment to their company.

"There's a difference between buying your own car and someone giving it to you as a gift," says Paladini. "We built a company with our own hands. We are both immigrants, from Argentina and Ecuador, respectively. Back in 1995, we had no access to information, money, investors. Using our own hands, ideas and brains, we always made the right decisions for our company. When you build things on your own, you give things more value."

Growing the company from the ground up, Martillo and Paladini did it all, from sales to installation. They learned processes, policies and procedures from A to Z and garnered a strong comprehension of the industry, its issues and what it needed. First came selling, then expansion. Now Cynergy Data has a staff of more than 50 and is still growing. Yet, despite its growth, Cynergy Data keeps its core rooted in the reliability of service it brings to the table.

"All ISO channels are based on service and relationships," says Martillo. "When we were driving the numbers we wanted, we decided to restart all over again as a processing company and looked for the right relationships to build a structure for the foundation of what Cynergy is today. We know what the market needs, what the ISOs need, and we built a different company to provide for those needs."

Paladini says, "We always keep in mind our customers – the merchants as well as ISOs. We are straight shooters, always telling the ISO up front what we can provide. That

gives us room for growth as well as trust in the industry."

While trust is an important part of this highly competitive business, competition doesn't seem to have much importance to Cynergy Data. "Any of the processors out there could be considered a competitor, but we don't feel any pressure. It's not an issue for us," says Martillo. "We don't need to show lower prices in order to get business. We just make the opportunity for agents to try us."

Martillo is quick to point out that Cynergy Data is competitive but does not have the best prices. In order for Cynergy Data to provide the best service, it has to have what it considers the best infrastructure and the best professionals in place. As every company chief knows, that costs money – money that Martillo believes is well spent.

"In the long run," he says, "our customers get better service and our attrition rate is the lowest in the business. This is a long-term industry. If you're in it for money today, you're in the wrong business."

The business Cynergy targets is small to midsize merchants on a national scale. While Cynergy does service major accounts as well, 86% of Cynergy Data's portfolio is small to midsize retail merchants, with a significant number entrenched in the Hispanic arena.

"We are the number one processor in the Hispanic market," says Martillo. "We are fluent in both Spanish and English in all our departments."

Bilingual services Cynergy Data offers include a full suite of in-house programs for gift cards, e-commerce and electronic check conversion as well as a faxed application program. Cynergy Data also offers competitive and customized residual pricing, conversion incentive programs (see "New Products" in Green Sheet issue 01:08:02, Aug. 27, 2001) and guaranteed leasing.

The hottest product and service that Cynergy Data is touting is its CHARGE ANYwhere. It allows merchants to accept wireless credit card transactions, send e-mails and faxes, and send and receive pages. Additional benefits include instant approvals on all transactions, lower processing fees, reduced fraud exposure, near real-time reports, the ability to produce customer receipts, and lightweight and easy mobility.

Cynergy Data also provides terminals, pinpads, printers, check readers and related equipment from all of the major players, such as Lipman, Hypercom, VeriFone, Thales, RDM and MagTek. Its software partners include ePayment Charge, Authorize.Net, IC Verify and PC Charge. Leases are handled by Cynergy Data through various leasing relationships.

"What makes a big difference to the ISO that brings business to us is having everything in-house," says Martillo. "We do everything ourselves and offer everything in-house."

From data entry to risk management, from front end to back end, from tech support to underwriting, Cynergy Data keeps it under its sturdy roof. The only service Cynergy Data outsources is its chargebacks and retrievals, handled by a third party. But that service soon will be coming in-house.

According to Martillo, Cynergy Data is in the process of building a new internal system that will incorporate not only in-house chargebacks and retrievals but will also launch online access for both ISOs and merchants. Applications will be able to be downloaded online, MID numbers will be provided within hours and Cynergy Data guarantees every ISO will have an approved account that same day.

"We decided to build our own system in-house," says Martillo. "Full control, change and updating can only be done with a fully customized software database. We want to be dynamic because this industry is changing so fast. If

you build your own system, you can make the adjustments you need as you want to meet the changes."

Paladini says, "Our customer is the ISO. We work for them. How we can make them happy, how we can support their sales – that's what we are all about. We are service driven, and we pay residuals. We understand how crucial the residuals are for the sales rep. Part of our service is that you can count on your residuals every month."

More than 200 ISOs are getting paid regularly by Cynergy Data as a result of the more than 10,000 merchants Cynergy Data services. And while sales have doubled in the past year for the company, Cynergy Data treats each one of its ISOs and merchants with equal personalized care. ISOs receive continual support during business hours from a department that is exclusively dedicated to meeting sales reps' needs and answering every call personally that comes in from an ISO.

Every new sales agent who comes aboard is assigned a Cynergy Data rep. The agent receives a welcome package of policies and procedures and goes through a tele-training seminar; onsite training is offered for the larger ISOs.

What type of ISO is Cynergy Data interested in? People who are serious in business.

"The ISOs who are hit-and-run scenarios and don't care about the merchants are not who we want to do business with," says Martillo. "We want to do business with guys who understand the value of the account and are in it for the long haul. It is amazing how the turmoil in the industry is bringing us good professionals and agents looking for a home that is more serious and one they can trust and do business with."

Paladino says, "Those types of ISOs have been a good fit for us. There are a lot of ISOs who do business and then go elsewhere. For us, it's been different. When they start doing business with us, they stay with us."

Cynergy Data further ensures its quality of service for all of its ISO channels via a survey conducted once a year. Five to six pages of questions are sent out, covering issues such as how they rate Cynergy Data, what it's doing well, what it's not doing well and what the ISO needs Cynergy Data to do. According to Martillo, great ideas have come out of the survey.

Another area of the industry that Cynergy Data is benefiting from is the recent merger/acquisition frenzy. "I think because of the size we are, mergers and acquisitions have helped us," says Martillo. "When ISOs have to deal with a big compa-

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ny, they feel once they become part of the monster, they're not going to be recognized and their merchants won't be taken care of. Mergers and acquisitions work in our favor because we are smaller and give personal attention. Fortunately, I think the industry will consolidate more and more."

Paladini sees the benefits of this aspect of the industry as well. "The industry has been driven by small agents, and that's who we need to focus on," he says. "All those mergers and acquisitions are only doing good for us. Every day agents come to us and say, 'They don't know what I need, they don't know me.' We do."

Both company execs believe the industry is in a young stage and has a lot more to accomplish. They both also believe that service will be the key because merchants are more educated and expect customer service that truly helps them.

"With our philosophy, we are right up that alley," says Martillo. "With our knowledge and background, we can really understand what the agents need as well. We lived those years. We now are bringing service and technology to the agent. We satisfy a lot of agents' needs."

Martillo also believes attitude is changing throughout the industry as well. "There was a lot of used car salesman mentality a few years ago. Now everyone is trying to shape up. That's good for all of us," he says.

Will Cynergy Data ultimately succumb to the gobbling up of small, successful players by the bigger, hungrier guys?

"We have been approached, but that's not even in the picture," says Martillo. "We are a young company, guys having fun and getting great personal reward from what we do. Our original concept was to do a company we can be proud of and enjoy. The money will come, and it has. We are still enjoying it, so much so that it's hard for us to leave the company at night. I want to return every call and call every person who wants to talk to me. For us, enjoyment is key."

Paladini says, "Our concern is not how to grow the company but how not to lose the flexibility and personal service our customer needs. Flexible and fast – the market cannot bear a company that doesn't understand those needs. But stability is key, too. We always will keep up with technology and service and never will forget where we come from."

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Yaga Acquires Third Company

Yaga, Inc. announced its acquisition of Air-Tunnel, a developer of m-commerce platform software that allows interactive communications, transactions and delivery of media between applications and mobile devices in real time.

Air-Tunnel's non-fragmented interoperable mobile Xchange (NIMX) platform enables enterprises and portals to extend their applications and content over wireless and wired networks.

The integration of Air-Tunnel's NIMX technology into the Yaga platform creates a seamless, one-stop electronic and mobile commerce transaction and payment platform, enabling businesses of all sizes to create new revenue streams from multiple distribution channels. Yaga is now able to provide wireless services to help businesses manage and deliver content and process payments and transactions from all wireless devices.

"With the acquisition of Air-Tunnel, Yaga now offers a one-provider solution for advanced wireless and electronic payment transactions, giving businesses the speed and flexibility they need to generate revenue," said Steve Elefant, President and COO of Yaga, Inc.

By incorporating the Air-Tunnel technology, Yaga's expanded wireless payment offering includes: enabling credit card payments from any Short Message Service (SMS), Personal Digital Assistant (PDA), or Wireless Application Protocol (WAP) -enabled wireless device, micropayment transactions through stored value accounts or aggregated billing, flexible selling plans including subscription and pay-per-download, and an interactive voice response (IVR) system to enable transactions from voice devices.

"Mobile commerce offers a one billion potential customer market for our merchants. It's a must-have feature set for every merchant interested in maximizing profitability," said Chris Kitze, CEO of Yaga, Inc.

Other companies previously acquired by Yaga include Allibra, Inc. and MagnaCash. Yaga acquired Allibra to deliver high-quality video to user desktops enhanced with push and subscription mechanisms. Yaga acquired MagnaCash to supply a payment solution for small financial transactions and royalty management capabilities to its customers.

COMPANY PROFILE

Electronic Payment Systems

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E-mail: amaley@eps-na.com

Company address:
6472 South Quebec Street
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Old-Fashioned Values Prove Their Worth

When The Green Sheet started profiling companies that were making a difference in the payment-processing industry, one of the first organizations to be showcased was Electronic Payment Systems (01:08:02, Aug. 27, 2001).

The message EPS sent out last year was strong – creating profitability and growth for ISOs by offering superior solutions and service. It placed a call to the ISO community. Who picked up the phone? Agents from all over the country.

"We've signed up a lot of new agents, but not new in the business," says John Dorsey, President/CEO of EPS. "They came from other providers who, unfortunately, lost them because these agents felt their providers didn't care whether they sent them business or not. They felt they weren't appreciated."

EPS has capitalized on that lack of appreciation. It marketed itself heavily at trade shows, advertised in major trade publications and talked to as many reps working the streets as possible.

"When people are unhappy and keep seeing our name, they think, 'Hey, why not give them a call?' " says Dorsey. "We're continuing to put our name out there and supporting it with internal improvements."

Those internal improvements included increased technical-support personnel, another risk-management specialist and additional agent-relations reps. EPS even brought in another bank and an additional processor to offer processing choices for its ISOs.

According to Dorsey, EPS believes in providing multiple options for its agents, options that incorporate more in-house services. Along those lines, EPS recently has embraced a private-label truncation solution with plans for a loyalty card program this summer.

"We've gone to truncation, and we've brought it in-house so we can do it solely for us," says Dorsey. "By keeping the revenue stream in-house instead of having to go to an outside provider, our agents make more money. Every chance we get to eliminate the middleman means more money for our ISOs."

EPS also walks the walk on another service – namely, same-day merchant numbers.

"Everyone says it, but we do it," says Dorsey. "If it's in by noon, it's out by 5, even if we have to work 'til dark. I'll stake my life on that statement."

To ensure that same-day delivery, EPS employs six specialists whose sole job is to work merchant ID numbers exclusively.

Online apps is another service EPS has incorporated in the last year. Throw in online stat reporting that's updated twice daily for agents and a

new teleconferencing unit to provide quality training and field communication, and what emerges is an organization that's definitely putting its money where its mouth was.

"Everyone says it, but we do it. If it's in by noon, it's out by 5, even if we have to work 'til dark. I'll stake my life on that statement. ... We kill our merchants with customer service. We talk to our ISOs. I call myself the new-customer service manager. "

– John Dorsey
President, CEO
Electronic Payment Systems

EPS's balance sheet reflects that investment. Last year it averaged 800 deals a month. This year, EPS boasts 1,200 legitimate installs per month and is working on a target of 1,400. Last year, EPS had 18,000 merchant deals on the books. This year, that figure has grown to 24,000 merchants.

"We owe it all to doing what we say we are going to do," says Dorsey. "We kill our merchants with customer service. We talk to our ISOs. I call myself the new-customer service manager. I take their calls and I personally provide service."

In addition to Dorsey putting himself on the front line, EPS has 10 staffers in customer service who make and take calls every day, all day. Seven tech staffers are available as well, all cross-trained, all in-house. Then there are the five agent-relations reps whose sole job description is dealing with sales agents. This entire multi-support operation functions live, with no voicemail.

"Services like online apps may be the new demand, but we find the biggest thing is someone taking agents' calls, returning them and answering their questions," says Dorsey. "That how we've gotten a lot of our new business. We work with old-fashioned values. By helping someone else, something good will happen to you."

Helping agents also extends to training. EPS will pay for airfare and

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hotel to bring agents to its Colorado headquarters. For the larger ISO offices, Dorsey will personally fly out to do on-site training.

EPS's approach to signing agents is unusual as well. "I'll say to an agent, 'You write the contract, you tell me what you want, and as long as it works for both sides and gives me a three-year agreement, I'll sign it,' " says Dorsey.

That philosophy seems to be working. In the last year, EPS has expanded its affiliate offices from 25 to 29 locations and counts more than 300 agents in its national family.

Has EPS's competition changed in the last year? According to Dorsey, there's less competition.

"Mergers and acquisitions have changed it for us – in our favor, I might add, since we are more of a smaller, in-house organization, a hands-on company that can resolve issues immediately," he says. "The big acquirers are not going to be able to stay big players because they don't know how to treat the smaller guys."

Dorsey believes that if the smaller guys keep services in-house, portfolios will build. He doesn't see the big guys having that ability to build their portfolios. So how will EPS avoid being gobbled up? "Just say no," says Dorsey. "Tell them to go out and build their own portfolio."

"Merchants are getting smarter so they can run their businesses better and stay in business longer. That's means profitability for all of us."

– John Dorsey

How has the industry as a whole changed this past year? "I see the industry looking for companies that stand behind their word," says Dorsey. "Our industry is becoming a more honest and more ethical industry with better people making it easier to do a deal. The dishonest ones are falling off."

Dorsey also attributes the shift to leasing companies sharing bad agent data and underwriters connecting with each other, which has translated to fraudulent agents getting cut off. "It's so important to share information," says Dorsey. "It's changing our industry, for the better."

Another major change this past year is how merchants are doing business. Dorsey sees them understanding fee structure, understanding upgrades and downgrades. He sees them getting more educated and thinks it's a great thing.

"Merchants now know what they're talking about and what they're paying for," says Dorsey. "Merchants are getting smarter so they can run their businesses better and stay in business longer. That's means profitability for all of us."

If there was one problem that Dorsey sees in an otherwise rosy picture, it is his inability to talk about the issues on a personal basis.

"The problem people in my position have is that we don't have anyone to talk to and share," says Dorsey. "I can't sit down with another CEO and talk about issues. I do sit down with my department managers, and I also go to the bottom and ask what needs to be done. When you're in the belly of the beast, you see what needs to be changed. Ninety percent of the time, the guys in the trenches are right. If you stay in the trenches, there won't be any fires at the top."

Barring any major fires, what do the next 12 months hold for EPS? "We hope to double our business while continuing to improve customer service, technical support and risk management," says Dorsey. "We want to be one of the most state-of-the-art merchant service providers in the United States. I think that's realistic."

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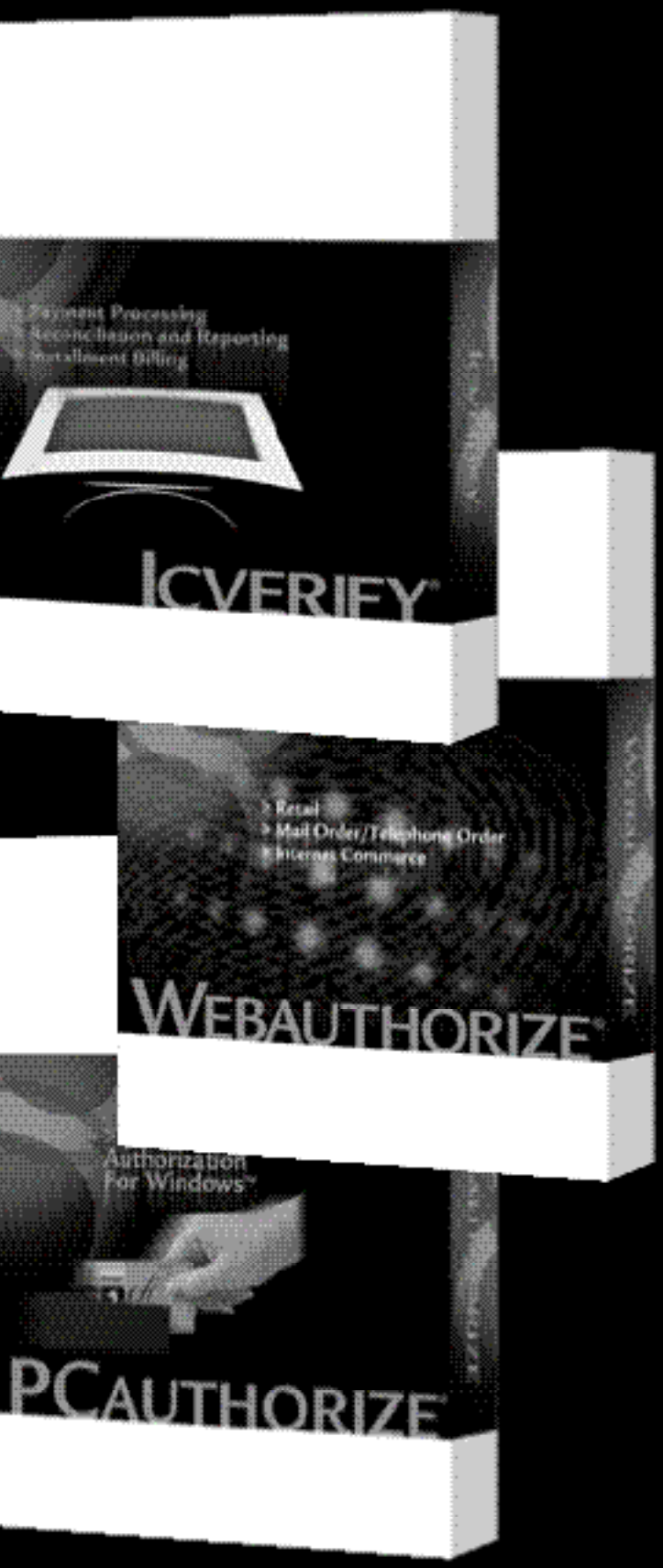

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COMPANY PROFILE

Galaxy Payment Solutions

ISO contact:
Jim Morelli
Phone: 708-540-4174
E-mail: jmorelli@galaxypayment.com

Company address:
5714 Saint Charles Road
Berkeley, IL 60163
Phone: 708-540-4174
Fax: 708-540-4164
Web site: www.galaxypayment.com

ISO benefits:
- Galaxy programs bring cost savings to merchant accounts.
- Account-receivable process can be outsourced and automated so employees can focus on other job functions.
- ISO marketplaces are expanded through the flexibility to provide greater range of options to merchant customers.
- Programs designed to get money into your busi-

Increasing Merchant Markets One Check at a Time

Banks love bounced checks. The $56 billion a year they collect in returned check fees more than makes up for the costs of additional handling. And then some. The 1.1 million checks that bounce every day do cause a lot of heartache for the merchants and businesses that unwittingly accept checks written on accounts with non-sufficient funds.

Galaxy Payment Solutions wants to change that. Co-owner Jim Morelli said that since checks are still the preferred method of payment in America, his company's programs are designed to help take the insecurity out of the transaction when merchants accept checks. “Eighty percent of Americans with buying power use checks. We say businesses should give their customers another option,” he said.

Morelli and his brother Frank started Galaxy Payment Solutions in April 2001. They have come up with programs for electronically processing checks and recovering funds from returned checks as well as ideas for merchants interested in expanding their customer bases.

“Very few people are offering payments solutions like we are. We offer our customers’ clients expanded options, expanded marketplaces and cost savings,” Morelli said. The company provides a number of new services and products that will change the way businesses collect their accounts receivable. Merchants will increase their markets and profits.

Clients all over the country, in a range of industries and sizes, are utilizing Galaxy’s full line of services. Electronic check processing, including check recovery, conversion, online and telephone check acceptance, automated payments and e-commerce Web site design and hosting are all part of Galaxy’s line of payment-processing services.

Galaxy is based in Berkeley, Ill., a suburb of Chicago, and has 10 to 15 ISOs, mostly based in Chicago and Houston, who work with these merchants across the country. The company is hoping to get more ISOs on board as it signs on more and more larger volume clients.

CHEXpedite is the trade name for services supplied for and licensed through National Bank Drafting Systems in Fort Worth to move money through the Federal Reserve.

Through its association with NBDS, which also licenses 2500 additional companies, Galaxy is able to take advantage of the benefits of a big corporation and pass the savings to its customers. CHEXpedite covers several options for electronic check processing and recovery.

Another advantage Galaxy has over its competitors is that it will design a payment solution system for the way its merchants do business. The programs can be customized, yet they

"We'll process 10 transactions or 1 million. The dollar amount doesn't matter, the volume doesn't matter. We ask, 'How do you do business? How many orders per month do you take? What's the average ticket size?' Our point is that we help people with cash flow to improve the bottom line."

– Jim Morelli
Co-Owner, Galaxy Payment Solutions

have all the pluses of working with large processing companies.

Galaxy will tailor a program combining one or more of the services it offers based on the needs of each business, not on the volume of transactions processed each month.

Morelli said, "We'll process 10 transactions or 1 million. The dollar amount doesn't matter, the volume doesn't matter. We ask, 'How do you do business? How many orders per month do you take? What's the average ticket size?'

"Our point is that we help people with cash flow to improve the bottom line."

Morelli said Galaxy Payment Solutions operates with four main goals in mind:

"Cost savings for the merchant is number one. The expansion of their marketplaces and giving our customers' clients more payment options is next.

"Getting the money from the transactions into the business as quickly as possible – within 24 to 48 hours, max – follows that. Providing accounts-receivable outsourcing for the customers kind of wraps things up. We're doing the work for them and cutting their costs for them at the same time."

CHEXpedite Electronic Recovery service is free to the merchant. Morelli said that with this program Galaxy is competing against other check recovery services, but the process is much faster and more convenient than any other method available. It will work on any bank in the U.S. and its territories and makes collecting on out-of-town checks easier than ever before.

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Seventy percent of bad check funds are collected before sending to collections, and CHEXpedite eliminates the need for businesses to make uncomfortable reminder phone calls or send threatening letters. When the merchant's bank forwards a bounced check directly to CHEXpedite, it gets entered into a database and is resubmitted electronically via the ACH network.

If the check bounces again at that point, Galaxy's processing center calls the bank to verify funds before a third and final attempt to collect is made. When the funds are collected and released, merchants receive 100 percent face value of the check paid twice monthly.

CHEXpedite's Online Electronic Checks option lets online businesses accept payment by check from the millions of Americans who prefer to write checks rather than use a credit card. With CHEXpedite Online Electronic Checks, merchants accept and process electronic check payments directly from their Web site. Customers select the online electronic check option and enter the requested bank account information; the interface is designed to look like a regular check.

CHEXpedite Electronic Check Conversion converts a traditional paper check into an electronic item at the point-of-sale and processes it through the Federal Reserve's Automated Clearing House (ACH). Electronic Check Conversion saves time and money while reducing the risks of NSF checks, making them as hassle-free as a credit card transaction.

The Electronic Phone Checks option gives merchants access to a huge customer base. Some estimates put the number of people who have checking accounts but no credit cards at 75 million. It makes sense to be able to accept payment for goods and services from them.

This program allows merchants and businesses ranging from mail order/catalog sales, travel agencies and advertising sales departments to charity fund-raisers, Internet service providers and utility companies to accept checks by phone or fax. The bank routing and account numbers are forwarded to the processing center and will be originated for deposit within 24 hours.

The processing fee for electronic phone checks is determined by the volume processed. There is no minimum with Galaxy – it will process one or 100,000 transactions for deposit the next day.

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tem, using "Pre-Authorized Checking" to ensure that all monthly payments are received on time. Instead of wondering when and if they are going to receive payment, merchants get a pre-authorized check on time each month for every customer on the program. The pre-authorized checks are deposited like regular checks.

The Electronic Phone Checks option gives merchants access to a huge customer base. Some estimates put the number of people who have checking accounts but no credit cards at 75 million. It makes sense to be able to accept payment for goods and services from them.

For larger clients, automated payments can be processed through the Automated Clearing House (ACH) system. With proper authorization and assuming that funds are available, merchants collect money from their customers in two banking days, no matter where they bank in the United States (given funds availability). Most software for entry of business orders can provide the information needed to "originate" an electronic payment. Data gets converted to the required format, and Galaxy's processing center serves as the gateway to the Federal Reserve Banking System.

Galaxy's CHEXsite Services has complete e-commerce solutions, including designing and hosting Web sites and integrating CHEXpedite payment options. The CHEXsite Services team will build into any Merchant's Web site the ability to take orders online, using the CHEXpedite Payment Gateway. The gateway allows the use of Online Credit Card acceptance or the use of the CHEXpedite Online Electronic Check as payment options for a customized shopping cart.

The team is comprised of professional designers and programmers, each with years of experience in design, hosting, and marketing Web sites on the Internet. They are committed to working closely with the client in order to create a site that precisely meets their needs and projects their desired image to visitors.

CHEXsite Services also offers a wide variety of hosting packages designed around individual needs. Galaxy will host sites designed by its own team or those "transplanted" from another Web provider. Three levels of hosting allow for the perfect blend of options and pricing, including permitted space, audio/video and e-commerce capabilities.

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NEW PRODUCTS

Good Things Come in Small Packages

Mini-Bank 1500
TRANAX

An innovative design that packs a lot of features into a compact ATM makes the Tranax Mini-Bank 1500 an ideal choice for any retail location.

The 1500 is the latest in the Mini-Bank line; this new machine incorporates the line's proven reliability and simple maintenance features with some new and improved enhancements and design elements.

The machine's industrial design is the most obvious element. One of the Mini-Bank 1500's enhanced features is voice guidance for compliance with existing and proposed Americans with Disabilities Act (ADA) requirements. Another new feature is an encrypted PIN pad that meets all PIN security requirements, including Triple DES. The new ATMs also have 56K modems.

The Mini-Bank 1500 has a highly configurable platform, making it easy to customize for any retail location. For example, the machines can be upgraded for higher volume locations and vault cash. Customers have options to choose different screens, cassettes and security levels.

Tranax Technologies

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Dallas, TX 75229
Phone: 877-602-8183
www.tranax.com

Helping ATMs Become Web-Enabled

Nexus INvolve and Infonox glu-on
NEXUS SOFTWARE and INFONOX

Web-enabled ATMs are offering customers more options all the time, and a new partnership between two companies will make deploying these state-of-the-art machines even simpler. Nexus Software Inc. and Infonox have partnered to facilitate the functionality of the advanced ATMs.

Glu-on provides connectivity to Infonox's Active Payment Platform and also offers extensive capability to deployers for managing events, notifications, transaction flows and

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The open standard XFS capabilities of Nexus' INvolve provide portability to install glu-on onto any device that supports XFS.

Nexus' open standard, XFS-compliant INvolve middleware and Infonox's glu-on plug-in technology provide a flexible infrastructure solution to suit consumer needs. Glu-on works with most open, proprietary extensions for future devices from major deployers.

"Traditionally, institutions have been limited to solutions offered by ATM hardware vendors. Now, with glu-on coupled with INvolve, deployers can choose the hardware that best meets the needs of their end users," said Safwan Shah, CEO of Infonox.

The alliance is expected to speed up the transition from legacy ATMs to Web-enabled ATMs. ATMs using glu-on and INvolve already have been rolled out in gaming and retail markets.

Nexus Software

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www.nexussoft.com

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password:166831

Connect the Applications

.NET Payment Solution

PARADATA SYSTEMS INC.

Paradata Systems Inc. has a new payment solution supporting the Microsoft.NET framework. For merchants building and improving commerce solutions, the new release offers flexibility, easy integration and a short learning curve.

The solution's main component features a .NET class library that supports all of Paradata's payment solutions offerings as well as sample applications written in such languages as C#, VB.NET, J# and ASP.NET.

Microsoft .NET comprises a set of software technologies for integration through the use of XML Web services. Small building-block applications can connect with each other, and with larger applications, via the Internet. Developers can create XML.NET connected software.

The .NET program interface gives merchants a range of integration options to choose from and can be tailored to suit individual needs. This creates a simple integration process and allows them to take advantage of important .NET features, such as stability and error handling.

Paradata Systems provides real-time payment services for financial organizations and businesses in North America and Europe. Its Web-based payment solutions allow its customers to integrate payment throughout various front- and back-end systems.

To learn more about Paradata's Microsoft .NET solution, visit the Merchant Integration Kit online at www.paygateway.com/tech/# and click on Payment Plugs.

Paradata Systems Inc.

201-1010 Alpha Lake Road
Whistler, BC V0N 1B1
Phone: 800-604-3282
Fax: 604-905-0252
www.paradata.com

NEWS

Warning: E-mail Misleading Consumers about Credit Reports

The Consumer Data Industry Association is once again warning consumers to be wary of an e-mail message circulating that contains false information about consumer credit reports.

Contrary to the e-mail, credit reporting agencies do not provide personal consumer data to "anyone who requests it." Federal law prohibits such a practice. The toll-free number included in the e-mail is only for consumers who want to remove their names from mailing lists for pre-approved offers of credit generated by the major credit reporting companies. That number has been in effect and available to consumers since 1997.

This is the third time in the last 12 months that the same e-mail has been circulated. The Consumer Data Industry Association (Associated Credit Bureaus at the time) issued two previous news releases noting the e-mail was false and misleading. Consumers can access the original release sent out in July 2001 by clicking on "Media Room" at www.cdiaonline.org.

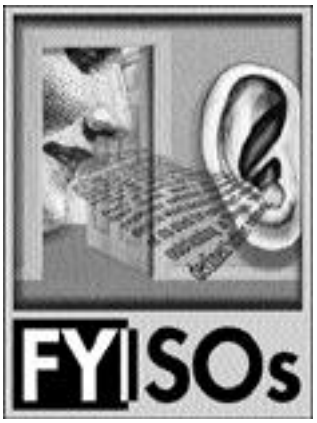
Octopus Takes Hong Kong Cash By Storm

A recent article in the New York Times reported that Hong Kong's 6.75 million residents use an Octopus card, a Sony-manufactured contactless card containing an embedded microchip that gets passed over a scanner to gain access to almost every train, bus or ferry.

Although transportation transactions account for more than 90 percent of Octopus use, more and more retail merchants, such as Starbucks, 7-Eleven, and fast-food chains, now accept the card. Generally, the retailer collects roughly 1 percent of the value of the purchase made with an Octopus card.

Valued at about HK $48 million (US $6.12 million), nearly seven million Octopus transactions occur in Hong Kong each day. The card requires an upfront deposit of at least HK $50 (US $6.41), and card value can be replenished, with transactions settling at the end of the day.

"It's not used by the operators as a product differentiator, but as a common service for all customers," says Eric Tai, Chief Executive of Hong Kong's Octopus Cards, Ltd. According to Tai, if competing bus or ferry systems each issued their own card, the system never could have built critical mass.



InteliData Launches Modular Credit Card Product Suite

InteliData Technologies Corp., a provider of Internet banking, credit card management and electronic bill payment and presentment technology and services, announced the launch of its online credit card management product line. Online Card Solutions are, for the first time, being delivered as unique modules, allowing credit card issuers to enhance their cardholders' experience while also reducing customer service costs and increasing revenue.

The Card Solution Base Modules contain online features such as real-time enrollment, ability to view account balance and payment status and information, credit card bill payment, ability to update contact information, and secure customer-service representative messaging.

ALLIANCES

MSI To Purchase 10,000 POS Terminals From Lipman

MSI New Jersey, a provider of bankcard merchant services, announced it has signed an agreement with Lipman USA, a provider of highly customizable electronic payment solutions, for purchase of 10,000 point-of-sale terminals. The agreement allows MSI to supply its customers with NURIT wired and wireless point-of sale solutions. At the heart of this agreement is the new Lipman ImagePak, which provides a comprehensive solution for payment processing and check imaging.

"Three years ago, Lipman and MSI New Jersey began working together, with our commitment to help them become a significant player in the POS marketplace," said Michael Grossman, Lipman's Senior Vice President of ISO Sales. "The signing of this agreement demonstrates MSI New Jersey's substantial growth and success in the industry. We are proud to be a partner in their success."

Certegy Expands Processing in Australia

Alpharetta, Ga.-based Certegy Inc., a global card processor, and AMPBank Limited, a subsidiary of AMP Limited, one of Australia's largest financial services companies, announced a long-term contract. Certegy will process AMP Bank's Australia and New Zealand credit card portfolios.

The AMP Credit Card is an American Express Card product that Certegy will service at its Melbourne processing center. With the addition of AMP, Certegy's Melbourne

center will process more than 4 million cards. Certegy will be Australia's first fully certified American Express processor.

Pay Cash for More Minutes

U.S. Cellular has joined forces with Western Union Financial Services, Inc., a subsidiary of First Data Corp., to give its TalkTracker prepaid customers with the freedom and convenience to refill their minutes whenever and wherever they want using the Western Union SwiftPay service.

TalkTracker is U.S. Cellular's prepaid wireless service solution specifically targeted at consumers who want the safety and convenience of wireless phone service, without the hassle of credit checks, contracts, deposits and monthly bills.

U.S. Cellular customers can now replenish minutes to their prepaid wireless accounts at any of Western Union's more than 40,000 agent locations nationwide, including grocery stores, convenience stores and other retail outlets, by providing their wireless phone number along with a cash payment. Payments made using the SwiftPay service will be posted to a customer's account on a near real-time basis, replenishing the account within minutes.

Making Deals around Meals

Atlanta-based Ingenico Corp., a subsidiary of Ingenico S.A., and Debitek, a subsidiary of Ingenico Corp., and Horizon Software International, Inc., have agreed to a strategic partnership in which each company will resell each other's respective solutions.

Horizon Software International, a food services management software provider with more than 8,000 installations nationwide, offers BOSSCentral, a Web-based solution that manages inventory, procurement, distribution, production, menu planning and point-of-sale data for food departments in educational institutions, corporations, restaurants and health care organizations.

Debitek's MoneyClip provides electronic cash systems that replace currency with smart card or magnetic stripe cards for use in vending machines, copiers, laundry rooms, and dining area cash registers.

"Combining the two solutions positions Horizon to leverage Debitek's electronic cash systems in the K-12 school market. In turn, Debitek is now able to provide a comprehensive point-of-sale solution as well as Horizon's BOSSCentral in the campus, corporate and correctional facility markets," said Larry Hauser, Vice President and General Manager of Debitek.

Coming in 2003: Disney-Branded, Bank One Visa Cards

The Walt Disney Co., Bank One Corp., and Visa announced two multiyear, strategic alliances that will create the first Disney-branded Visa card with Disney rewards as well as provide Visa with joint marketing opportunities across Disney's various business units. The alliances will begin January 2003, with both the card and cooperative-marketing initiatives expected to launch in the first half of 2003.

The Disney-branded Visa card with Disney rewards, to be issued and managed by Bank One's credit card subsidiary, will have global acceptance like all Visa cards and enable consumers to earn rewards that may be used toward the purchase of Disney theme park vacations, videos and other Disney-related merchandise at Disney's theme parks and resorts in the United States and Europe, The Disney Stores, Walt Disney Studios and Disney stage productions.

As part of the relationship, Visa will continue to be a major advertiser on Disney's media properties, such as ABC Television Network, ESPN, ABC Family, SoapNet and ABC Radio Networks.

"These alliances create significant new business opportunities for all three companies," said Robert A. Iger, President and COO of The Walt Disney Company.

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@pos and Praxell Go to Market

When the products and services are complementary, it makes sense to pair up for marketing. @pos and Praxell announced a joint effort between the companies to promote and sell the other's products and services to retail chains in the U.S.

The cooperative marketing agreement integrates Praxell's stored-value gift and loyalty cards with @pos' Web-enabled iPOS TC terminals into one inclusive solution.

Fast and Free

Datacap Systems Inc.'s DSIClientX will interface to Mercury Payment Systems merchant clients. DSIClientX is a free Windows client control in XML format with Active X control distributed without charge to systems developers for inclusion in their business systems applications.

In two seconds, it provides a standardized interface to the major bankcard processors for payment verification via dial, wireless and Internet communications. It sends encrypted verification requests over local or wide area networks to Datacap's dial or Internet payment servers, located at the store or remotely.

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APPOINTMENTS

Burgett Joins Gilson & Associates

Atlanta-based Gilson & Associates, an item-processing technology company that provides productivity-improvement software and consulting solutions for the banking industry, has named Dennis Burgett as its Director of Sales.

Burgett, whose background includes managing clients such as Bank of America, First Union and First Tennessee Bank as Vice President of Sales for Home Account Network and more than 10 years of sales experience at Sun Microsystems, will be marketing Gilson & Associates' entire line of products and services, including new products ESPTF (Enterprise Sort Pattern Test Facility) and Point of View PDA.

Point of View is an easy-to-use, automated, interactive survey mechanism that provides real-time feedback when conducting employment satisfaction and management consensus surveys. The system uses handheld PDA devices equipped with wireless network cards and runs on Windows CE, an operating system designed for portable and handheld computers.

Jettis.com Fills New Position

Jettis.com, Inc., a four-year-old payment services provider (PSP) for companies with an Internet presence, announced the appointment of Jay Kenney to the newly created position of Director, Corporate Business Development. Kenney, with more than 20 years of experience in the payment services industry, has held sales-management and business-development positions with sever organizations, including Bank of America, Citicorp, Barclays Bank, Imperial Bank, Global Payments and Cardsystems. At Jettis, Kenney will oversee sales, marketing, and program strategy, focusing on expanding the role of the company in the growing e-commerce transaction marketplace.

Leroux Returns to First Annapolis

First Annapolis Consulting, Inc., a management consulting and mergers and acquisitions advisory firm with a primary focus on the financial services industry, announced that James Leroux has been named Principal and will specialize in the firm's mergers and acquisitions and outsourcing support services practice areas.

Leroux, who previously spent several years at First Annapolis, working on transactions in the card issuing, transaction processing and retailer services areas, also has worked as an attorney at Bingham Dana LLP in Boston, specializing in corporate transactions in the financial services industry.

20 REASON WHY I SHOULD CHANGE MY CURRENT PROCESSING SOURCE

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1. HAS NO AGGRESSIVE BUYBACK PROGRAM FOR RESIDUALS.
2. DOES NOT PAY RESIDUALS BY THE FIFTEENTH OF THE NEXT MONTH.
3. DOES NOT ISSUE SAME DAY MERCHANT NUMBERS.
4. HAS AN UNRECOGNIZABLE PROCESSING BANK.
5. DOES NOT DO ITS OWN UNDERWRITING.
6. DOES NOT PRICE ITS PROGRAM OFF OF INTERCHANGE.
7. DOES NOT OFFER COMPETITIVE RATES.
8. DOES NOT PAY ON MID AND NON QUALIFIED PROFIT.
9. HAS INADEQUATE RESIDUAL REPORTING.
10. HAS NO AGENT HELP DESK.
11. HAS AN APPLICATION FEE.
12. DOES NOT SHARE ON ALL REVENUE STREAMS.
13. DOES NOT ACCEPT FAXED APPLICATIONS.
14. ALWAYS PAYS RESIDUALS EXTREMELY LATE.
15. SOLD ITS PORTFOLIO AND DID NOT PAY ISO/AGENT
16. DOES NOT COMPENSATE ON AMEX, DINERS OR DISCOVER.
17. HAS LIMITED FRONT END PROCESSING OPTIONS.
18. HAS NO AGENT BANK PROGRAM.
19. DOES NOT OFFER GOOD CUSTOMER SERVICE.
20. DOES NOT SETTLE THROUGH CHASE MANHATTAN BANK.

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- Check Conversion Income

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'The Line That Is Dotted'

As Alec Baldwin bluntly stated in "Glengarry Glen Ross," your only object is to get the customer to "sign on the line that is dotted." The challenge is universal. The solution, at times, can be elusive.

First and foremost, you have to deliver exactly what your customers want rather than what you think they need. What services will increase their revenue? What's their time frame for those services? Are they most interested in price or is the latest technology their number one objective? Do they want data or do they want to see a demonstration?

Additionally, knowing what your competition offers is key to closing. Who else is this prospect talking to? What do they offer? Can you offer better? Even more important to getting that sale, however, is knowing your customer's competitors. Whom do they compete with for business? What does their competition offer consumers that they don't? How can you level their playing field?

Having all the right information and making the best presentation that's tailored to your prospect's specific needs may be all well and good, but it is meaningless if you're not talking to the right person. Have you established who the decision-maker is? Is the person sitting across from you in a position to say yea or nay right then and there?

Ask yourself another important question. Have you listened more than you have spoken? There's a reason God gave us two ears and only one mouth. Allow your prospect plenty of time to ask questions. Let them voice opinions, concerns and share past experiences. Knowledge is power, and it precedes selling of any kind every time.

And, finally, now is not the time to be shy. Have you asked for the account? If you don't, you can bet someone else will.

It's more important to hear "no" than to not hear anything at all. And if they do say "no," what better opportunity is there to address their objections and turn that negative to a positive? If you know the problem and can show your prospect that you can efficiently and cost-effectively fix it, then a win-win solution will be created … and that dotted line will get signed.

Help Them Make the Change

Demystify, clarify and compare. These three words can mean the difference between sale and no sale. By nature, people are resistant to change. Merchants are prime examples of this principle. They are hesitant to change their thinking, their business practices, their service provider. The successful sales professional can motivate change by making his or her products and perspective less scary.

ACA International Convention and Expo

Highlights: The Association of Credit and Collection Professionals is an international trade organization that provides a variety of accounts-receivable management services to more than one million credit grantors and is dedicated to building a positive relationship between the industry and the general public. This event covers all segments of the credit and collection industry, with enough options for learning and networking to make it interesting for all involved. Choose from more than 30 session topics that are important to your particular needs within the industry. Presenters include some of the most accomplished and influential leaders talking about ways to help you get motivated to succeed and get energized to improve your bottom line. Earn CEUs toward your ACA Academy Degree; attorneys can earn CLEs by attending the concurrent MAP Legal Education Conference. Attend one of ACA's popular half-day educational seminars, which are included in the full convention registration fee – choose from the FDCPA Issues for Owners or FCRA Seminars. The Expo Hall will feature new products and services and give opportunities to comparison shop, find new resources and meet new contacts. Special events, like a beach party and golf tournament, are planned for attendees – and activities and day-care programs will occupy the kids' attention.

When: July 17-20, 2002

Where: Disney's Yacht and Beach Club Resort, Orlando, Fla.

Registration Fees: Access complete registration information, including dates and fees, by visiting www.collector.com or calling 952-926-6547.

How to Sign Up: Online at www.collector.com. Phone 952-926-6547. Fax form to 952-926-1624.

The Payments Institute (East)

Highlights: Presented in an intimate setting, The Payments Institute offers a timely, comprehensive and in-depth curriculum structured to help you achieve a deeper understanding of the payments system and practical information to enhance your organization's ability to realize the benefits of electronic payments. The Payments Institute is not just a conference. It is a unique "collegiate" learning experience that gives a broad overview of the entire electronic payments system, including core topics like Automated Clearing House (ACH), card systems, checks, international payments and large-value payment systems. Building on this core payments system foundation, students may select from a broad range of electives focusing on specific key applications, implementation approaches and experiences, best practices and case studies. Students also can hone their payments knowledge and professional skill sets through a team-building simulation and industry-focused group project regime.

When: July 28-Aug. 1, 2002.

Where: Emory Conference Center and Hotel, Atlanta.

Registration Fees: Vary by NACHA membership status and hotel accommodations selected. Meals are included in registration fees. Visit www.nacha.org for details.

How to Sign Up: Online at www.nacha.org/conferences. Phone 800-487-9180.

Fear of the unknown is the first hurdle to overcome. There's not a prospect out there who doesn't ask the following:

- What will happen if I switch to a new terminal?
- What will a new service do for my business?
- Will my customers see a difference?
- What benefits will I see?
- Is anyone else using this equipment or service?
- Do I need training to utilize it?
- Do I need to buy new supplies or support systems?

If you can confidently and effectively answer these queries, you have demystified your products and services. You have alleviated their fears.

The next challenge is clarifying your offering. Remember, the product or service you're promoting may be new and unfamiliar to your prospect. It may have so many bells and whistles that it intimidates and confuses the merchant without proper explanation. Get down to basics. Clearly and concisely explain:

- Exactly how the terminal/service works.
- Exactly how it is set up.
- Exactly how long it will take to put in place.
- Exactly how the customer interfaces with it.
- Specific benefits, such as quieter printer, faster authorization, etc.
- What keystrokes do what.
- What upgrades are/are not needed.
- The security the system offers.
- The kind of paper needed.
- What customized features are available.

Don't forget to ask questions as you clarify. Keep your prospect engaged throughout this process. Your answers may be factual, but if they don't address your prospect's specific needs, they'll fail.

The final step in motivating change is comparing your services to your prospect's current situation. Once their fear has been assuaged and their questions answered, they'll see your product and services can offer them a better business environment – if only they'll make the change.

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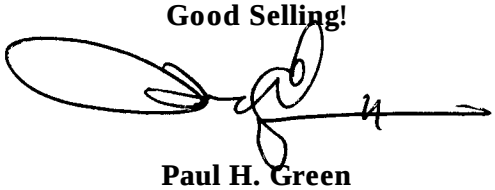

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