



# The Green Sheet

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

February 14, 2005  
Issue 05:02:01

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## PCI: Card Associations Unite to Fight Fraud With Collaborative Standard

**W**e've been hearing, and talking, about compliance in the payments industry a lot lately.

As awareness of protecting financial information grows, the card Associations, acquirers, equipment manufacturers, merchants and even consumers are all concerned about identity theft, database hacks, card skimming, phishing, Web sites offering stolen account numbers for purchase, check forgery and the numerous schemes that keep surfacing on a regular basis.

Because of the far reaching implications resulting from system breaches, protecting the security of transaction data grows more important all the time. No one benefits when the issues are not addressed: Merchants lose money, card brands lose value, and individuals lose good credit ratings and the time it takes to repair them.

Conducting business in the payment processing business is far more com-

**"PCI is based on a lot of well-known security practices and common sense, but it's also based on our own experiences over the last couple of years in response to breaches. The standard is focused specifically on the payment card industry and what an entity can do to protect card data that is stored."**

- John Verdeschi,  
Vice President, eBusiness  
and Emerging Technologies,  
MasterCard International

plex now than ever before: There are now more people using more payment methods in more locations, and transaction data come in contact with more touch points along the way.

This means there is also far more potential for crooks to get involved.

See PCI Standard on Page 63

### NotableQuote

**"A bit scared and accompanied by my brother, I met with the attorney on the morning of the arbitration meeting ... This quiet, quintessential old Southern lawyer was the complete opposite of the two young East Coast boys sitting across from him, trying desperately to explain how this big corporation threatened their entire livelihood."**

See Story on Page 80



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1-800-252-1140 [www.PayAtTable.ca](http://www.PayAtTable.ca)

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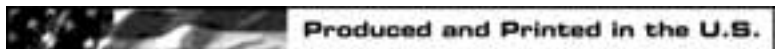
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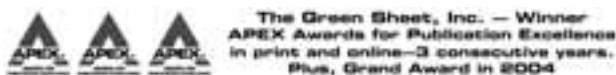
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# Forum

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## In Defense of Leasing

Ed Freedman:

I just got the latest issue of The Green Sheet today [Jan. 10, 2005, issue 05:01:01], and there were some sort of negative comments [published in the Forum section about] applauding a salesperson for [signing] a \$59 per month/48-month lease. Their premise is, of course, that the terminal was worth \$800 or less, and that the salesperson took advantage of the merchant.

I would argue back that there's nothing wrong with leasing. Simply put, why does Starbucks charge me over \$1.50 for a \$0.20 cup of coffee? Well, there are many reasons like paying for real estate, salaries, etc., but simply put, I'm willing to pay it.

And if a salesperson can bring value in any form to a merchant, and the merchant is willing to pay it, then I say let 'em pay it. Why doesn't every big, powerful company just give everything away at cost? They don't, and why should our industry be any different? Leasing is good in a slim-margin, cut-throat business such as ours.

Chris Collins  
Total Merchant Services

## A Clarification on Check 21

I have noticed that a number of comments made in The Green Sheet say something like what I found on page 60 of the Dec. 27, 2004 publication [issue 04:12:02] that said, "The Check Clearing for the 21st Century Act, or Check 21, allows banks to transmit electronic images of checks instead of flying or trucking paper checks across the country."

Check 21 does not validate the exchange of check images. It only validates check truncation when the original check is replaced with another piece of paper, the substitute check.

While Check 21 encourages the use of technology to enhance the check payment system, Check 21 is not a requirement for and does not provide the laws to support the truncation of paper checks with check images.

The exchange of check images continues to require the agreement of the two exchanging parties. I suspect the confusion arises from Check 21's use of image technology to reprint a special image copy of the original check. Check 21 has labeled this special image copy a substitute check and makes it, not the image itself, the legal equivalent of the original check.

David Walker, President  
Electronic Check Clearing House Organization (ECCHO)

David:

*The Check 21 Act raises some complex issues that can at times be over-simplified. Thank you for clarifying the language and intent of Check 21.*

Editor




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# IndustryUpdate

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## NEWS

### Walgreens to Continue Accepting AmEx

**Walgreens Co.** will continue accepting **American Express Co.'s** (AmEx) cards. Previously the company announced it would stop accepting them. A new, long-term agreement allows customers to use AmEx cards at all Walgreens drugstores, along with Walgreens.com, Walgreens Mail Service, Walgreens Home Care and Walgreens Specialty Pharmacy.

### Lynk Changes Name to RBS Lynk

Following **Lynk Systems Inc.'s** acquisition by **The Royal Bank of Scotland Group**, the company changed its name to **RBS Lynk Inc.** As part of the RBS Group's U.S. holdings, RBS Lynk will report up through the Citizens Financial Group as part of a newly created division called Retail Direct, USA, focused entirely on the payment processing industry. Lynk will begin the brand transition immediately, with completion anticipated by May 31, 2005.

### SunTrust Updates Status of SEC Inquiry

**SunTrust Banks Inc.** received notice in October 2004 that the staff of the Securities and Exchange Commission (SEC) opened an informal inquiry into matters concerning SunTrust's restatement of its financial statements for Q1 and Q2 of fiscal 2004.

In connection with that inquiry, the SEC issued a formal

order of investigation and the SEC staff issued subpoenas seeking documents related to SunTrust's allowance for loan losses and related matters. SunTrust intends to continue to cooperate with the SEC.

### TowerGroup: Trend Toward Outsourcing Private Label Cards to Continue

According to a report from **TowerGroup**, consumer credit shifts are driving in-house issuers of private label credit cards to either outsource their card businesses or sell them outright. The report, titled, "Private Label Credit Cards in the U.S.: A Market in Decline?" finds that competition from general purpose credit cards, an increase in the volume of bad loans and margin pressures contribute to the shift.

TowerGroup expects robust activity in the co-brand and reward programs. The group also predicts that payroll and gift cards will continue to compete with private label cards for transaction share at the POS. To purchase a copy of the report, send an e-mail to [service-info@towergroup.com](mailto:service-info@towergroup.com).

## ANNOUNCEMENTS

### CDE Adds Encryption to Client Services

**CDE Services Inc.'s** PIN-entry Device (PED) encryption service is in compliance with ANSI X9 (TG-3) standards. The Accredited Standards Committee X9 Inc. created and approved the TG-3 Compliance Guidelines. This organization includes more than 50 major processors,



- The average consumer will spend \$97.27 this Valentine's Day, down slightly from \$99.24 in 2004, a study from the **National Retail Federation** (NRF) predicts. NRF expects 2005 total Valentine's Day spending to reach \$13.19 billion.
- U.S. gays, lesbians and bisexuals are expected to spend \$610 billion in 2005, a \$30 billion increase over last year, according to a study by **Packaged Facts** and **Witeck-Combs Communications**.
- Consumers bought \$70 billion worth of merchandise in 2003 using **self-check out systems**, according to the "Atlanta Journal-Constitution."



# "Simply The Best!"



"I had nine merchant accounts approved in one month and was paid \$46,468.55 by AmericaOne. During my eight years of merchant services experience, I have worked with several other service providers and built many merchant portfolios, only to see them disappear without any personal benefits from their sale. I will never know that feeling again! Thank you AmericaOne!"

Michael K. Severna Park, MD

"I had six very satisfied customers approved and received \$6,827.30 from AmericaOne. After my 14 years of experience in the industry, I found someone who has finally come up with a program that eliminates waiting years to get paid. AmericaOne's Uplift Cash Program is definitely one of a kind. AmericaOne is a true partner and is always there to help make every sale."

Lewis C. Worcester, MA

"I had twelve merchant accounts approved in a one month period and I earned \$5,959.21. The AmericaOne Merchant Acquisition Program is the most rep-friendly program I have ever experienced. It is the best planned program, from the application, to the cash in my hand."

Ray E. Redding, CA

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## Industry Update

banks and networks. Its founders created it to standardize the process for reviewing security procedures throughout the industry.

### Certegy Establishes Corporate Headquarters

**Certegy Inc.** established its corporate headquarters in St. Petersburg, Fla., the principal home of the company's domestic card and check operations. Certegy's global software and development group, corporate accounting, treasury, tax, human resources support and other administrative functions will remain at the Alpharetta, Ga. location, the site of the company's corporate headquarters since 2001.

### EPN Launches FTP

**The Electronic Payments Network (EPN)**, the automated clearing house (ACH) payments business of The Clearing House Payments Co., offers File Transfer Protocol (FTP) over the Internet to enable financial institutions to connect to EPN's network. EPN is the only ACH operator to offer FTP to financial institutions. Commerce Bancorp Inc., which operates 305 retail banking locations serving metropolitan New York and Philadelphia, is the first commercial user of EPN's FTP option.

### Fifth Third Bank Processing Certifies WeatherMaster ATM

**Fifth Third Bank Processing** certified **Qualtex Corp.'s** WeatherMaster weather-resistant ATM, for processing on its network. Qualtex's WeatherMaster ATM gives bank equipment dealers and independent ATM deployers access to a lower cost through-the-wall ATM for small financial institutions and retail establishments.

### InstaPay Systems Gets Patent

The U.S. Patent and Trademark Office issued patent No. 6,834,271 to **InstaPay Inc.'s** wholly owned subsidiary, Kryptosima. The patent takes a broad approach to describing methods for implementing secure payment transactions on the Internet. It addresses the processes that the company's payENKRYPT service uses to enable ATM card transactions for Web merchants.

### Merchant 911 Recommends CardinalCommerce

**Merchant 911**, an organization dedicated to helping merchants combat fraud, chargebacks and related expenses, selected **CardinalCommerce Corp.** as a recommended provider of fraud-related chargeback reduction measures. Merchant 911 endorses CardinalCommerce's Cardinal Centinel software for

merchants who wish to reduce their exposure to fraud and chargebacks by participating in the Verified by Visa and MasterCard SecureCode programs.

### Firms Join Retail Broadband Alliance Created by New Edge Networks

More than a dozen new companies have joined the **Retail Broadband Alliance**, a forum that makes it easier for retail merchants to migrate to broadband networks. New members include card payment processors, POS solutions providers and ISOs. **New Edge Networks** formed the Alliance in November 2004 to bring together companies that represent turnkey products used in the retail sales supply chain for data networks. The Alliance develops marketing and educational programs to help increase awareness of solutions that enable broadband networking use. Membership in the Retail Broadband Alliance is open to companies whose products and services target the retail industry. Member companies must have a minimum of two years of operating history and proven expertise in retail markets. More information is available online at [www.newedgenetworks.com/solutions/rba/](http://www.newedgenetworks.com/solutions/rba/).

In other news, the broadband networks New Edge Networks builds for business customers are compliant with the credit card data security requirements of AmEx, Discover and MasterCard. The company awaits validation of compliance from Visa U.S.A. New Edge Networks will undergo regular system audits to maintain its compliance certification.

### Paymentech Certifies SLIM CD

**SLIM CD** POS software has been certified on the **Paymentech LP** platform. The software supports both card-swipe and keyed transactions. SLIM CD's NetConnect connectivity generally processes transactions to Paymentech in two to five seconds without requiring the merchants to have a leased line or dedicated Internet connection.

### TPI Achieves Security Compliance

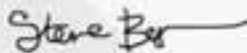
**TPI Software LLC's** software is in compliance with **Visa U.S.A.'s** Cardholder Information Security Program (CISP) and MasterCard's Site Data Protection (SDP) program. TPI developed its SmartPayments software in accordance with Visa's CISP "Payment Application Best Practices" (PABP), a newly formalized compliance program for software applications defining a set of guidelines for developing secure payment applications.

### Tranax ATM EPPs Certified by Visa

**Tranax Technologies Inc.** will make **Visa**-certified

## THE AMERICAN DREAM

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



Steven H. Bryson  
Founder & CEO

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### TESTIMONIAL

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

Sincerely,  
Tom H Chicago IL



# 877-GET-4ISO

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



## Industry Update

encrypting PIN pads standard on all of Tranax's Mini-Bank 1500, Mini-Bank 2150, Mini-Bank 2250 and Mini-Bank 2100T ATMs. Tranax made this decision despite the fact that Visa has postponed its PED- certification deadline.

### TSYS Finalizes BofA Agreement; Extends MBNA Agreement

TSYS added five years to its current agreement with **Bank of America (BoFA)** to provide exclusive processing services through 2014. The expanded relationship covers all consumer- and commercial-credit Visa and MasterCard accounts issued by BoFA, as well as the recently acquired portfolio of FleetBoston Financial Corp. In other TSYS news, **MBNA Corp.** extended its existing seven-year relationship with TSYS for commercial-card processing services by an additional three years. MBNA has been a TSYS client since 1995.

### USA ePay Bundles Security Scans for Online Merchants

**USA ePay** has become the first payment processor to bundle Visa and MasterCard compliance security scanning at no additional cost to merchants. This new service bundle is designed to allow all USA ePay merchants to easily meet the requirements of Visa and MasterCard's new PCI security standard.

### WRG Moves to New Headquarters

**Western Reserve Group Inc. (WRG)** moved into its newly constructed corporate headquarters. The 25,000 square-foot facility allows WRG to manufacture 350 ATMs simultaneously, as well as keep an on-demand inventory of 775 units. The structure is located on 2.5 acres, allowing WRG to expand the facility by another 30,000 square feet in the future. An information technology (IT) room allows WRG's IT staff to monitor all systems from a secure, central location.

## PARTNERSHIPS

### CrossCheck Inc. Named Heartland Provider

**CrossCheck Inc.** will provide check authorization services, including electronic check conversion, to **Heartland Payment Systems Inc.** as part of Heartland's suite of payment services.

Heartland's check conversion service offers check conversion at the point of sale and delivers funds directly to the merchant's account. This program's unique features include the guarantee and conversion of business checks.

### Wal-Mart, GE Consumer Finance and Discover to Issue Credit Card

**Wal-Mart, GE Consumer Finance** and **Discover Financial Services** will launch a new credit card on the Discover network. GE Consumer Finance will issue the new card, called Wal-Mart Discover, and will make it available to customers by March 2005.

### First National Merchant Solutions Extends ECHO Contract

**First National Merchant Solutions** renewed **Electronic Clearing House Inc.**'s processing contract under the Visa POS Check program through December 2005. First National first contracted with ECHO to process Visa POS Check activity in December of 2002.

### Ingenico and VueMedia Create Customer Channel

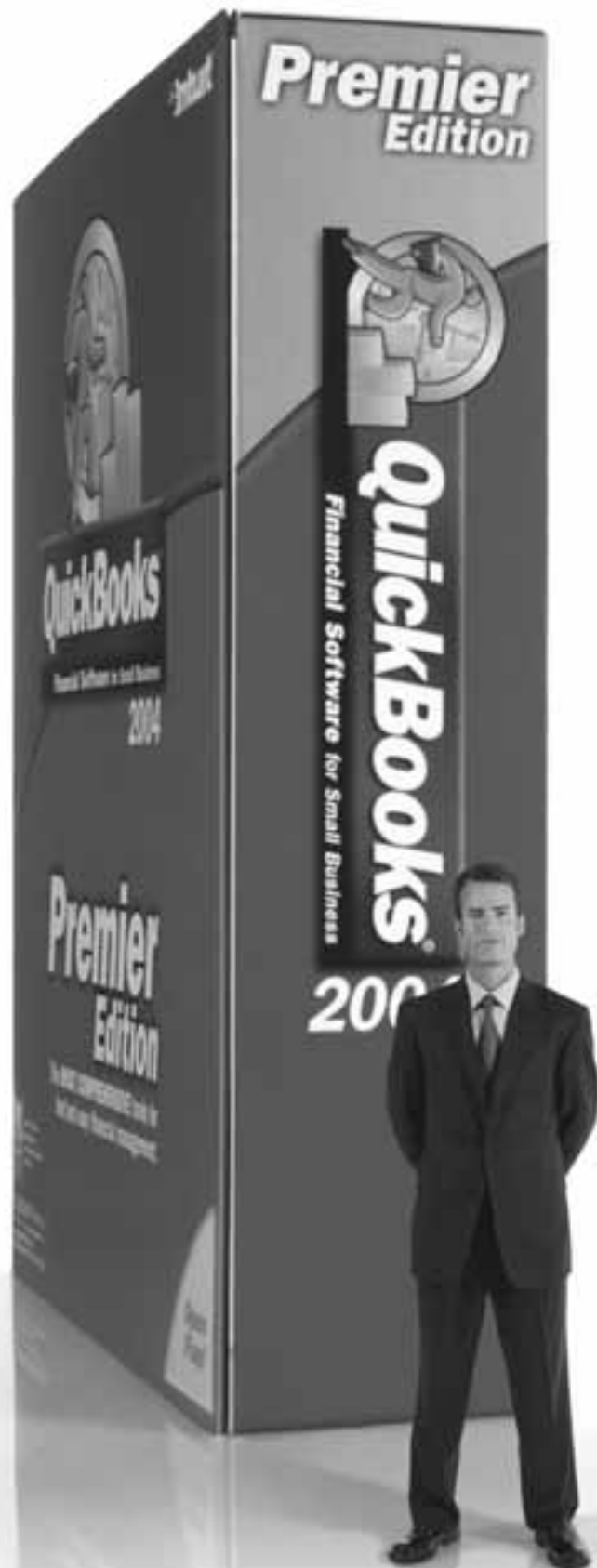
**Ingenico** formed a partnership with **VueMedia** to develop a joint product that will enable retailers to reach consumers in real-time with messaging at the POS or anywhere in the retail store. VueMedia's Personalized Real-time Interactive Store Middleware (PRISM) will leverage Ingenico's i6770 terminal to deliver a single easily integrated point-of-payment and in-store technology platform that will allow retailers to communicate directly in real time with consumers. In other Ingenico news, the company formed a marketing partnership with **IBM**, in which Ingenico will supply terminals and transaction acceptance technology for IBM's Retail Store Solutions organization within the United States. The agreement includes all Ingenico multi-lane products sold to major U.S. retailers.

### Returned Check, ARC and ACH Transactions Processed On-demand

**JUSTCHEX LLC** added access and functionality for collection agency and bank partners to use the transmodus.net Web site as its own client-processing platform. The site functionality enables collection agencies and banks to manage client accounts and configure their own business models. transmodus.net provides an on-demand solutions platform that delivers verification, electronic recovery and secondary collections.

### Keycorp and Thales Sign Global MOU

**Keycorp Limited** and **Thales e-Transactions** signed a Memorandum of Understanding to develop, manufacture and sell secure payment systems. Keycorp will distribute and install Thales Artema payment terminals for specific opportunities. Although the focus of the rela-



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**Industry Update**

tionship is payment terminals, the two companies will also explore other areas of common interest.

**Lipman Get \$2.5 Million Order From UBC**

Lipman Electronic Engineering Ltd. received a \$2.5 million order for its NURIT 8320 desktop POS terminal from United Bank Card Inc. (UBC). UBC currently handles the merchant accounts for more than 20,000 locations and processes in excess of \$2 billion annually.

**Moneris Solutions, InfoTouch and Merchant Partners Join Forces**

Moneris Solutions, InfoTouch Corp., and Merchant Partners have teamed to integrate payment processing with touch screen technology. The offering consists of a Moneris merchant account, InfoTouch's Store Manager touch screen POS software and Merchant Partner's Virtual Point of Sale.

**NOVA and Givex Partner**

NOVA Information Systems Inc. and Givex Corp., a gift card and loyalty transaction processor, formed an alliance that will allow the companies to market enhanced electronic payment, gift, loyalty and check products to merchants in North America.

**RBS Lynk Joins With New Edge Networks; Adds Members to OneLynk Alliance**

New Edge Networks entered into an agreement with RBS Lynk to provide national broadband DSL access for multi-location networks. New Edge Networks will provide direct high-speed connections to all Lynk processing centers for redundant access by its merchant customers. In other company news, RBS Lynk signed Kobus Business Systems and Systems Technology Group as the newest members of OneLynk Alliance, RBS Lynk's value-added reseller program.

**TransAKT Taiwan and Wireless Tech Asia Pacific Jointly Market VoIP**

TransAKT Taiwan Limited reached an agreement with Wireless Tech Asia Pacific PTE for the sales and distribution of TransAKT Taiwan's Voice over Internet protocol (VoIP) services and hardware in the Asia Pacific region. TransAKT will be the exclusive supplier of the VoIP network that Wireless Tech will offer. TransAKT Taiwan will also supply Wireless Tech with all of its VoIP hardware.

**Pay By Touch and Certegy Partner**

Pay By Touch entered into a marketing alliance with Certegy. The alliance will allow Pay By Touch users to

cash government and payroll checks at Pay By Touch merchant locations using its finger scan technology along with Certegy's Paycheck Accept Verification and Check Guarantee services.

**ACQUISITIONS**

**Discover Financial Services and PULSE EFT Association Merge**

Discover Financial Services and PULSE EFT Association completed their merger following approval of PULSE's financial institution members. The merger joins PULSE and its 4,100 member banks, credit unions and savings institutions with Discover Network and its four million merchant and cash access locations. PULSE will become a business unit of Discover and will retain its brand, pricing and operating platform as well as its management team, staff and Houston headquarters.

**eFunds to Acquire ClearCommerce**

eFunds Corp. signed an agreement to acquire ClearCommerce Corp. eFunds will pay the purchase price of approximately \$19.4 million in cash at closing, which is expected to occur in Q1 2005. The acquisition will add a "card not present" fraud prevention solution to eFunds' retail and financial service offerings. It will also expand the company's footprint in the retail sector with more than 140 new customers in seven countries.

**TSYS to Acquire Vital Processing**

TSYS signed an agreement to purchase the 50% equity stake that Visa U.S.A. holds in Vital Processing Services. Following the closing of the transaction, Vital will become a wholly owned subsidiary of TSYS. Beverly Wells will remain President of Vital. TSYS expects the transaction to close in Q1 2005.

**APPOINTMENTS**

**First Data Names Mobile Solutions Director**

First Data Corp. appointed Nandita Bakhshi to Managing Director of Mobile Solutions, a new business unit focused on mobile payments and related services. Bakhshi joins First Data from FleetBoston where she served as an Executive Vice President of Consumer Deposits and Payments. She previously held executive level positions at Home Savings of America and Bank One Corp.

**DuoCash Names New CEO**

Internet payment solutions company DuoCash Inc.



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named **Albert F. Case Jr.** as Chief Executive Officer. Case joined the company as a consultant and acting Chief Operating Officer in June of 2004. Case, a 30-year veteran of the information technology industry, previously served as Division President and Senior Vice President of Gartner Inc., and President and Managing Director of Stamford Research.

### CardSystems Hires Sales VP and Director

Integrated electronic payment processor **CardSystems Solutions Inc.** appointed **William Caylor** to Vice President of Sales and **Robert Cochran** to Director of Sales. Caylor brings to CardSystems more than 15 years of experience in the payment processing industry. Prior to joining CardSystems, he served in sales management positions for NOVA Information Systems and Moneris. He also spent more than nine years in sales and general management positions with First Data and other payments companies. Cochran brings more than 17 years of experience in the merchant bankcard services industry. He's been responsible for building and managing sales channels, which include a direct sales force, regional sales offices and national agent/ISO channels.

### Wells Fargo Exec Voted NACHA Chairman

The members of **NACHA – The Electronic Payments Association** elected **Steve Ellis**, Executive Vice President of Wells Fargo & Co.'s Wholesale Banking Group, to the position of Chairman of NACHA's Board of Directors. Ellis and the new NACHA Board officially began two-year terms on Jan. 1, 2005. Ellis is a 17-year veteran of Wells Fargo.

### ViVotech Names New CEO

ViVotech appointed **Michael Mullagh** to CEO and a member of the Board of Directors. Mullagh served as President and CEO of Telephia and Whisper Communications, and as President and COO of two large Canadian wireless carriers. Mullagh replaces ViVotech co-founder Jorge Fernandes, who becomes Chairman of the Board.

### Ingenico Hires Rousseau and Le Marre

**Sylvain Rousseau** joined **Ingenico** as Group Vice President of Operations. Rousseau started his career at Hewlett Packard, before moving on to Thomson in June 2000, where he was International Supply Chain Director at the Tubes Division. **Patrice Le Marre** is now in charge of Supply Chain Management, reporting to Rousseau. Le Marre was previously head of planning at Alcatel. His top priority will be further growth in profit margins through cost control and enhanced customer service. ■

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Security	+ CISP & SOP Certified + Stable and Solid + Industry Leading Anti-DDoS Solutions	✓	?
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Support	+ Free Merchant and Reseller Support + Extensive Third-Party Support + Dedicated Account Management	✓	?

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# 3-D Secure Payer Authentication: A Solution for E-Commerce Merchants

By Rick Lynch

CardinalCommerce Corp.

**P**ayer authentication is the newest and most powerful tool available to e-commerce merchants today. Payer authentication provides merchants with the electronic equivalent of a signed sales receipt.

Under the umbrella of Visa's 3-Domain (3-D) Secure initiative, Internet merchants can participate in payer authentication. Visa's program is called Verified by Visa. MasterCard and Japanese Credit Bureau (JCB) also have 3-D Secure programs (licensed from Visa) called MasterCard SecureCode and J/Secure, respectively.

All three programs operate in exactly the same way; they validate that a consumer shopping on a merchant's Web site is the legitimate cardholder. Why would the payment Associations (Visa, MasterCard and JCB) want to do this? They worry about brand erosion.

## Guaranteed Payment

The benefits for merchants using payer authentication are pretty substantial. First and foremost, the software guarantees merchants payment on any fully authenticated transaction, even if the transaction is later determined to be fraudulent.

Merchants will NOT be "charged back." In fact, Visa and MasterCard actually block the submitting of chargebacks to a merchant's acquiring bank, so there is not even awareness at the merchant bank level that a chargeback occurred. More importantly, the number of chargebacks that merchants record with their acquirers will drop dramatically. Typical participating merchants see a drop of 60% – 70% in their monthly chargeback rates.

## Transaction Liability Shift

Even more monumental in concept than guaranteed payment is the shift in transaction liability from the merchant to the card-issuing bank. Never before in the history of card-not-present (CNP) transactions have the payment networks offered a way for merchants to avoid liability for CNP transactions that they accept. It has always been the merchant's liability. Those days are now over. This is ground-breaking stuff here, folks.

## "If I Had a Nickel for Every ... "

Now, how about a little lower margin for doing business more securely? Visa says "sure." For merchants who simply install Verified by Visa software on their sites, Visa

will lower their interchange rates by five basis points. I know, basis points are confusing, so what does that really mean? It works out to \$0.05 for every \$100 processed. A nickel doesn't seem like a lot, but it adds up when you're talking \$1 million a month or more in sales.

Why did Visa do this? The card Association wants to motivate merchants to participate, and it intends for the five basis points to help offset the cost that merchants pay for their payer authentication services (typically \$0.05 – \$0.10 per transaction).

## Common Misconceptions About Payer Authentication

### Misconception #1:

*"Not enough cardholders are enrolled."*

This statement is 100% false because more than 300 million U.S. Visa cards are enrolled. Visa offers merchants guaranteed payment on all Visa cards\* regardless of whether the cardholder is enrolled or not.

This means that from day one, with Verified by Visa enabled on their sites, merchants can cut their transaction liability by 50% – 60%, simply on their Visa transactions. Today, one out of every three online Visa transactions are fully authenticated, which means the cardholders have actively enrolled in the program.

MasterCard does not offer "attempts processing" liability coverage at this time, but the Association does guarantee payment on 5% – 10% of MasterCard transactions, and their adoption rate increases every day. When merchants combine the coverage of Visa and MasterCard, they typically receive guaranteed payment on 60% – 70% of their overall transaction volume. They also eliminate seven out of 10 chargebacks.

*\*A small percentage of Visa cards are not eligible for the Verified by Visa program, including some business-to-business (B2B) cards and prepaid gift cards.*

### Misconception #2:

*"Not enough banks offer the service."*

The above statement is completely untrue. Forty-five of the top 50 U.S. issuing banks, and more than 10,000 issuing banks worldwide now have the software up and running and available to cardholders.

### Misconception #3:

*"If it's such a good program, why aren't the 'big name' merchants doing it?"*

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### Feature

Good Question. These merchants would like to know why you don't consider them "big names": 1800Flowers.com; BlueNile.com; CompUSA.com; Cooking.com; Crutchfield.com; eBags.com; eCost.com; Etronics.com; FogDog.com; Hotwire.com; JCPenney.com; JetBlue.com; LizClaiborne.com; NewEgg.com; Nickelodeon; Northwest Airlines; OfficeMax.com; PlayStation.com; TigerDirect.com; Walmart.com; WilsonsLeather.com; Zales.com . And there are about 30,000+ others worldwide.

#### Misconception #4:

*"I've heard that Verified by Visa and MasterCard SecureCode cause higher 'abandonment' rates."*

First of all, let's define abandonment. It's when a customer leaves/aborts the checkout process prior to a final submission of the order, including items for purchase, billing and shipping method, and payment information.

Pay attention to this: Payer authentication occurs after checkout (when the shopping cart sequence has been completed) but prior to authorization of the credit card (it works with both real-time and batch authorization).

Understanding the definition of abandonment explains why Verified by Visa contributes to absolutely zero "shopping cart abandonment." It simply can't happen. Fundamentally, Verified by Visa, as a process that a consumer would experience, does not begin until the checkout sequence has been completed. With that said, the initial implementation of Verified by Visa, more than two years ago, had some problems with the authentication process. But those problems have been fixed.

First and foremost, Visa no longer allows pop-up windows for the authentication screen. Due to pop-up-blocking software and the almost instinctive act of a consumer closing pop-up windows, Visa realized that this would not prove effective.

Since then the Association has mandated the "in-line" presentation method, which presents the Verified by Visa screen within the same browser window. This in-line method has proven to be dramatically more effective, reducing authentication abandonment from around 30%, down to less than 1%.

The in-line method also allows merchants to keep their brand on the same page as the authentication screen, which provides additional reassurance to shoppers that they are not targeted in a phishing scam.

Also, Visa and MasterCard strongly

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## Feature

encourage the prominent display of the Verified by Visa and MasterCard SecureCode logos, both on the home-page and the checkout page so that it's clear to the shopper that this site is protected by these programs.

Finally, the strategic placement of consumer messaging (the fancy phrase for providing instructions and guidance to shoppers in the form of text) has been surprisingly helpful. Simply telling consumers what they can expect to have happen (e.g. "You might be prompted to enter your password if you are enrolled in Verified by Visa"), and what to do if the expected thing does not happen (e.g. "Please call this 1-800 number if you experience a delay or are unsure of how to proceed"), has been extremely helpful.

### Misconception #5:

*"Most consumers already have too many passwords; they'll never remember this one, too."*

First of all, do you have a debit card? If the answer is "yes," then what's your personal identification number (PIN)? Don't answer that. It's a rhetorical question, and you never know who might be listening! But you get the point, right? Why is it that we can instantly recall the PIN for our debit card amid all the other passwords that we have? Because it's the key to our bank account and our money. The same goes for payer authentication; a consumer's password is the key to his or her money while shopping online.

In regard to consumer experience, it's almost identical to entering a PIN for a debit card purchase. In fact, if someone wants to make their Verified by Visa password a PIN instead of a longer password, it's perfectly acceptable.

The point is, there is already a proven and flourishing example of consumers successfully protecting their money with a password (PIN), and payer authentication works exactly the same way. Consumers simply enter it in their Web browser instead of an ATM or POS terminal.

### Merchant Benefits of Payer Authentication

#### Guaranteed Payment

What does guaranteed payment mean? Exactly what it says. Let me make this crystal clear: If e-commerce merchants install payer authentication software on their sites, Visa and MasterCard will guarantee that they get paid and can NEVER be charged back on fully authenticated transactions.

For a typical e-commerce merchant, this represents about 25% – 33% of Visa card volume and 5% – 10% of MasterCard card volume. If that's not enough, Visa also offers guaranteed payment, including chargeback protection, on what it likes to call "attempts processing."

This means that if merchants have the Verified by Visa software on their sites, even if shoppers have not yet enrolled in the program (have not set up their passwords), Visa will still guarantee payment on those transactions and block any chargebacks from coming back to merchants on those transactions.

This represents an additional 60% – 65% of a merchant's overall Visa card volume. When you combine the protection outlined in the above two paragraphs, that equates to roughly 60% – 70% of a merchant's overall credit card volume that's covered by the two programs. That means 60% – 70% of a merchant's overall credit card volume will be guaranteed payment and will be protected from chargeback liability. Sounds crazy, right? See Misconception #3 above to see how crazy it really is.

#### Chargeback Blocking

What is chargeback blocking? Exactly what it sounds like. Visa and MasterCard step in between the issuing and acquiring banks and block the passing of chargebacks from the issuing bank (which issues credit cards to consumers), to the merchant acquiring bank, (which receives funds for settled purchases from issuing banks on behalf of the merchant).

What this means is that the software blocks a chargeback from ever reaching the merchant's acquiring bank. This also means that the number of chargebacks that show up on merchants' monthly chargeback reports will drop dramatically, typically by 65% – 70%.

When the number of chargebacks drops, the fines for those chargebacks (usually \$15 – \$25 each) also go away. In addition, on a protected transaction that proves to be fraudulent, since there was no chargeback because the software blocked it, the merchant can keep the funds for that purchase.

The software again blocks the issuing bank from pulling the funds for that fraudulent purchase out of the merchant account. Why? Because in the eyes of Visa and MasterCard, merchants have done their part to protect the transaction: They have the payer authentication software on their sites. Merchants might be off the hook for those protected transactions, but somebody has to pay for the fraudulent transactions, right?

#### Transaction Liability Shift

Transaction liability is the end result of chargeback blocking. If fraud occurs on a transaction, and the merchant is no longer required to reimburse the consumer for that fraud because the merchant employed payer authentication on the site, then who will? The bank that issued the credit card. All banks that issue Visa or MasterCard credit cards are now liable for all e-com-

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## Feature

### Verified by Visa Chargeback

#### Reason Codes Covered:

U.S. Visa Credit and Debit Cards –  
Full and Attempted Authentication

---

- 23:** Invalid Travel & Entertainment
- 61:** Fraudulent Mail Order/Telephone Order/  
E-commerce
- 75:** Cardholder Does Not Recognize Transactions

Visa International Credit and Debit Cards –  
Full and Attempted Authentication

---

- 23:** Invalid Travel & Entertainment
- 83:** Fraudulent Mail Order/Telephone Order/  
E-commerce

### MasterCard SecureCode Chargeback

#### Reason Codes Covered:

U.S. MasterCard and Maestro Cards  
Full Authentication

---

- 4837:** Cardholder Non-Authorization
- 4863:** Cardholder Not Recognized

Source: CardinalCommerce

merce transactions protected with payer authentication by merchants. When did this happen?

Well, it's actually been a couple of years now, and has always been this way for Verified by Visa and MasterCard SecureCode. Now does it make sense why the biggest merchants in the world want these programs on their Web sites?

Why would issuing banks allow this to happen? Aren't they now exposed to a huge amount of fraud? That's partially true, but banks, as members of Visa and MasterCard, are bound by the rules of the card Associations of which they are members. Also, issuing banks realize that in the long run these programs will strengthen the brand of their cards and make consumers more willing to shop online.

The e-commerce channel today represents only 2% – 3% of the overall commerce in the United States; however, it's the fastest growing payment channel. Issuing banks realize that e-commerce is really still in its infancy. Or maybe now it's more like a toddler, like my one-year-old son learning to walk; sometimes he still stumbles around like a drunken sailor.

E-commerce might not be perfect, but it's getting better

and becoming ubiquitous. However, in a few short years, e-commerce will be so big it will be too big to fix, so banks are willing to scrape their knees a little now and address any problems while they are still manageable.

When e-commerce is 5%, 10%, 20% or 50% of U.S. commerce, consumers should by then feel good about using their credit cards to shop online and not be afraid of identity theft and fraud.

### Accept International Transactions

Do your merchants accept transactions today from Nigeria? No? Not surprising. Nobody does. However, what about Canada, Mexico, England, Germany, Australia or Japan?

Certainly customers exist in these and many other countries in which merchants would be happy to do business, if they only felt safe about accepting the transactions. But there's no Address Verification System (AVS) for these countries, so what can they do?

If merchants enable Verified by Visa and MasterCard SecureCode on their e-commerce sites, not only can they accept transactions from these countries and others all over the world, but they can do so with exactly the same benefits and protections that they receive on U.S.-issued credit cards.

A conservative approach for a merchant who is hesitant to test the international markets might be to simply offer to accept international orders only if consumers make them with a Verified by Visa or MasterCard SecureCode credit card. That seems fair enough. Talk about expanding your markets!

### Reduce Overall Cost of Doing Business (Operational Overhead)

This benefit is probably the most difficult to put one's thumb on initially, but can be pretty substantial.

Ask merchants this question: How much manpower, resources and time does your business spend screening/filtering/manually reviewing transactions for fraud and then later dealing with chargebacks that slipped through these measures?

Whatever the answer is, cut that manpower, resource allocation and time by 60% – 70%, and that's what payer authentication has to offer merchants in terms of reducing their costs of doing business.

The bottom line is that Verified by Visa and MasterCard SecureCode make merchants' businesses more efficient. They reduce the time merchants spend trying to be

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security experts, and give them more time and resources to focus on selling their products, which is what they should be doing. It's a beautiful thing!

### Which Merchants Will Benefit Most From These Programs?

If merchants accept credit cards as payment online for merchandise, then they can benefit. It doesn't matter if they are a small business or if they sell millions of dollars in merchandise every year.

More specifically, the types of merchants who will benefit most are those:

- 1) Who sell in high-risk categories for fraud such as jewelry, consumer electronics, software and DVDs
- 2) Whose items consumers can easily pawn or fence such as sporting goods, tools, tobacco and ticketing
- 3) Who sell 'soft' products such as games, music, content and airtime/phone minutes.

### Where Can Merchants Get This Software?

Visa and MasterCard both have published vendor lists on their Web sites. Merchants should also talk to their mer-

chant acquiring bank, payment gateway, and/or payment processor to find out if they already have a vendor that they recommend or have partnered with.

Oh, and CardinalCommerce also offers the service.

- Verified by Visa Merchant Information Site:  
[http://usa.visa.com/business/accepting\\_visa/ops\\_risk\\_management/vbv\\_marketing\\_support.html](http://usa.visa.com/business/accepting_visa/ops_risk_management/vbv_marketing_support.html)
- Verified by Visa Consumer Information Site:  
<https://usa.visa.com/personal/security/vbv/index.html>
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*Rick Lynch is the Director of Business Development for CardinalCommerce. For more information on 3-D Secure payer authentication services, e-mail him at [rickl@cardinalcommerce.com](mailto:rickl@cardinalcommerce.com) or call 877-909-6119, ext. 112.*

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View

## Business Sense

# Creating a Business Plan

By Vicki M. Daughdrill

*Small Business Resources LLC*

*Editor's note: This is the fourth article in a series on building a business.*

**T**he business plan is a formal document that communicates the details of your company. It describes a planning process that defines who you are, what you do, what your vision is and how you endeavor to reach your goals. The plan also details actions that you will take to reduce uncertainty and to manage risk and change.

As I've discussed in previous columns, businesses fail primarily because of inadequate planning. And many business owners find the process of writing a business plan overwhelming. There are numerous tools available to provide assistance in writing business plans. One in particular that I've found to be very helpful is a book titled "New Venture Creation: Entrepreneurship for the 21st Century," by Dr. Jeffrey A. Timmons, Professor of Entrepreneurial Studies at Babson

College in Massachusetts.<sup>1</sup> I've used Timmons' book as a resource for my own business and in helping my clients with their businesses.

The book is quite thick (it's nearly 800 pages), and it provides excellent information about developing a business plan. For example, according to Timmons, following are key elements to a successful planning process that result in a completed business plan:

1. A commitment to the **process**. Commitment conveys your motivation to the vital people who work to see the plan through to completion. It also allows the planning participants to establish ownership in the plan.
2. Clear and realistic performance **expectations**.
3. Specific and measurable time-restricted **goals**.
4. The ability to **anticipate obstacles**. Excessive optimism can lead to ignoring reality and allowing advance on a course of action that might prove risky and costly.
5. **Milestones and a review process**. Milestones and planning reviews are necessary to check on the progress toward achieving goals.
6. **Flexibility** to revise or change goals or company direction.

Every business needs a quality business plan. The plan can be an instrument to guide growth; a device to determine product pricing; a mechanism to refine strategy and facilitate decision making; and a method to clarify financing requirements.

There are many ways to approach the preparation for and writing of a business plan, and no single best way to write one exists. Timmons suggests using the following general outline below as a guide. (You know your business best. Feel free to add or delete sections as appropriate for your specific business venture.):

1. **Executive summary**, including a description of the business; the target market and sales projections; distinctive competencies and advantages; the ownership/management team; and the economic profitability.

The executive summary should be no longer than two pages and should give a clear synopsis of the business.

*Sections two through nine (below) should contain thorough, detailed information, an explanation of the assumptions made, and attributions for all research data utilized.*

2. **The industry, the company, and its products or services**, including concept, vision, mission and pur-

1. "New Venture Creation: Entrepreneurship for the 21st Century," by Jeffrey A. Timmons; Irwin, Burr Ridge, Ill., 4th ed., 1994.



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## View

Timmons suggests keeping in mind the following "do's" and "don'ts" when writing your business plan:

<b>Do:</b>		<b>Don't:</b>
<ul style="list-style-type: none"><li>• Involve your ownership/management team in developing the business plan.</li><li>• Invest time and money in preparing the plan. It shows that you are committed to the business.</li><li>• Convey risks and assumptions, and how and why they are tolerable.</li><li>• Be candid and truthful.</li><li>• Remember that the plan is not the business, and that "an ounce of can-do</li></ul>	<p>implementation is worth two pounds of planning."</p> <ul style="list-style-type: none"><li>• Make the plan logical and comprehensive, and as short as possible. (However, don't sacrifice quality in the pursuit of brevity.)</li><li>• Let realistic market and sales projections drive the assumptions underlying the financial spreadsheets, rather than the reverse.</li></ul>	<ul style="list-style-type: none"><li>• Have unnamed, mysterious people on the management team.</li><li>• Make vague or unsubstantiated statements.</li><li>• Describe your business using industry buzz words so that the average person cannot understand.</li><li>• Spend money on flashy brochures, presentations or other "sizzle"; instead, show the "meat."</li></ul>

pose statements; products and/or services; and entry and growth strategies.

**3. Market research and analysis**, including customers; market size and trends; competition and competitive edge; estimated market share and sales; and ongoing market evaluation.

**4. Economics of the business** including gross and operating margins; profit potential; fixed, variable and semi-variable costs; months to break even; and months to reach positive cash flow.

**5. Marketing plan** including overall marketing strategy; pricing; sales tactics; service and warranty policies; advertising and promotion; and distribution.

**6. Operations plan** including operating cycle; geographical location; facilities and improvements; strategy and plans; and regulatory and legal issues.

**7. Critical Risks**, problems and assumptions.

**8. Management team** including organizational structure; geographical location; facilities and improvements; strategy and plans; and regulatory and legal issues.

**9. Financial plan** including actual income statements and balance sheets; pro forma income statements; pro forma balance sheets; pro forma cash flow analysis; break even chart and calculation; cost control; and highlights.

**10. Any appendixes**

If all of this seems intimidating, even with the help of books and Internet resources, there are still many professionals available to assist you with preparing your business plan. Depending on your geographic location and the amount of research you can complete, the cost for preparing a business plan could be as little as \$1,500 or as much as \$10,000 or more.

The business plan should be a fluid document. Simply creating a plan and never editing, amending or extending it is a wasted exercise. You should review and revise your business plan each year during your strategic planning for the coming year.

Businesses are rarely static, and change is constant. Your plan should reflect those changes in your business, your products and services, and your industry. It's never too late to develop a business plan. Successful, mature businesses can also benefit from writing a business plan, even if they have never completed one before.

For instance, one of my colleagues, who had been in the computer service business for over 10 years without a business plan, determined that his business was decreasing in profitability.

He was unable to explain this decline; he was busy, he was still making a profit, he still had a full load of clients, but he was less and less profitable. So he decided to take the time and spend some money (approximately \$5,000) to develop a business plan.

Once he analyzed his products and services, revisited his competition, revised his target market and conducted a detailed analysis of his pricing strategy, he understood his decline in profitability. With the strategies identified in his new business plan, he increased his business profitability by 20% within one year. And he continues to operate a very successful business today.

Whether you are starting a new business venture or looking for ways to increase a mature business's profitability, the business plan is a powerful tool. Now that you understand the what, why and how, I urge you to begin putting together your business plan today. ■

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*Vicki M. Daughdrill is the Managing Member of Small Business Resources LLC, a management consulting company. E-mail her at [vickid@netdoor.com](mailto:vickid@netdoor.com) or call her at 601-310-3594.*

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## Retriever Now the Fourth Corner of Iron Triangle

In another industry merger of sorts, Retriever Payment Systems and Iron Triangle Payment Systems LLC (ITPS) have combined as of the first of the year. Under the agreement announced Jan. 24, 2005, Retriever is now a subsidiary of ITPS but will continue to operate as Retriever Payment Systems. Both Retriever and ITPS are portfolio companies of GTCR Golder Rauner LLC, a private equity investor in the transaction processing industry.

Retriever's existing senior management team, including Chief Executive Officer Bill Higgins, will remain with the company; its existing investors have converted their ownership of Retriever into securities of ITPS.

Executives with both companies are enthusiastic about the possibilities for expansion the combination will provide. They said that each company brings its own set of core strengths to the partnership. Retriever serves more than 95,000 merchants nationwide, growing organically thanks to its focus on investing in technology and maintaining strong relationships with sales organizations and agents.

Tom Wimsett, ITPS CEO, hopes to build on the platform that Higgins and his experienced team have established through the years. Higgins cited Wimsett's talent for creating alliances, establishing partnerships and overseeing acquisitions. Before founding ITPS, Wimsett served as President and CEO of National Processing Co.

Wimsett formed ITPS in 2003 to build a provider of transaction processing and payment services through strategic acquisitions. However, Wimsett said that while ITPS has looked at several companies over the past year or so, the Retriever combination is the first transaction it has completed.

Retriever caught the attention of Wimsett and his team for a number of reasons and is an excellent fit with ITPS' business philosophy of serving the "iron triangle" of employees, customers and shareholders.

"We look at four pillars of value," he said. "The Retriever management team; the distribution channels they support; the investment in technology they've made, which positions them for growth; and the client base itself."

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# Crossing Over to Credit?

By Ann All, Senior Editor

ATMmarketplace.com

*This story was originally published on ATMmarketplace.com, Jan. 5, 2005; reprinted with permission. © 2005 NetWorld Alliance LLC. All rights reserved.*

**A**s selling ATMs and related services becomes ever more competitive, some distributors hope to get ahead by adding new product lines to their businesses. Because of similar customer bases and some overlap in vendors serving the markets, credit/debit processing appears to offer a solid cross-selling opportunity for ATM ISOs.

In the past year several large distributors, including NetBank Payment Systems, Kahuna Business Group and WRG Services, have introduced such services.

"If you don't do it, you're just leaving money on the table for somebody else," said Tammie Langworthy Kuhn, WRG's Director of Sales and Marketing.

Kuhn, who tallied 13 years in the merchant processing business before joining WRG, said the Ohio-based distributor just received the necessary approvals from Visa and MasterCard to begin offering credit/debit processing through its sales channel.

"The more services you can offer him, the less likely a merchant will be to leave you," said Elbert Enrique, National Sales Manager/ISO Recruiter for Best Payment Solutions, WRG's merchant processing partner.

Kuhn has been attending credit card trade events to try to recruit those ISOs to sell ATMs. WRG just introduced its new credit card program to its established ATM ISOs in October. So far, Kuhn said, 10 of 100 companies have expressed interest.

WRG intends to focus on credit rather than debit, Kuhn said, largely because no additional hardware is required. "Most of our locations aren't interested in putting more stuff on their counters. They don't want that swipe terminal and PIN pad."

## Different Direction

Some ATM distributors who have experimented with credit/debit processing say that it is not as vertically aligned with ATMs as it might appear.

"It's a very different kind of sale," said Neil Johnson, President of Texas-based International Merchant Services (IMS). "Companies that have tried to do both have typically done well in one business and not the other."

Johnson started his career in the check verification business but switched to the scrip market in the early 1990s because "revenues were higher and it required less effort."

Like many scrip deployers, he migrated to ATMs in the mid-'90s when surcharging became commonplace. He "inherited" several hundred credit card

customers last year when IMS purchased First Bankcard Systems, an ATM ISO which had dabbled in credit/debit.

A typical ATM lease is \$90 to \$120 a month, Johnson said, while a lease for a card swipe terminal averages about \$30 a month. "Many merchants mentally have a hard time making that kind of a leap."

One of the ATM industry's strongest markets, chain petroleum/c-stores, is largely off-limits to credit card ISOs, Johnson said, because corporate parents tend to offer their own branded card programs.

While he conceded it is difficult to penetrate the large petroleum/c-store chains, Enrique said there are plenty of smaller operations in need of credit/debit services.

And some large franchisees install second card terminals to handle transactions that do not involve gas purchases.

(Large chains with branded cards typically allow franchisees to offset petroleum costs with profits earned from card usage.)

Prepaid cards are a promising ancillary product for credit card ISOs, but Johnson said they tend to be popular in lower-income areas where ATMs traditionally do not perform as well.

Many credit card sales are made to new businesses; not so with ATMs, because of the difficulty of getting financing for merchants in business for less than two years.

Despite those concerns, Johnson has hired a credit card veteran to try to better develop IMS' credit/debit business.

"The revenues haven't panned out yet, but I'm not ready to give up on it," he said. The ATM industry "has



got to find a way to integrate debit" because those transactions are experiencing healthy growth while ATM transactions are leveling off.

### Service, Service, Service

"With the ATM business reaching a plateau, we obviously have to look at ways to expand our business," said Tommy Glenn, President of NetBank Payment Systems, an ISO with some 8,000 machines under contract that operated as FTI before it was purchased by Internet bank NetBank in late 2003.

Many popular ATM locations, including bowling alleys, restaurants and bars, present a "natural cross-selling opportunity" for credit/debit services, he said.

Glenn introduced credit/debit services at FTI before the NetBank acquisition. The company already has attracted some 2,000 merchant accounts.

Glenn expects the number to grow quickly now that NetBank Payment Systems has begun doing its own underwriting and added products such as electronic check conversion. The key to making such a strategy work, Glenn said, is offering quality products across the board.

"You can't succeed with an excellent product here, and a mediocre product there. You have to have a comprehensive suite of payment products, and be able to service and support all of them."

Enrique said ATM ISOs will enjoy an advantage over their credit card peers because of their traditionally strong focus on customer service. "Some credit card ISOs never see the customer after the initial sale."

### In the Trenches

ATM distributors are "already in the trenches and they're used to giving A-plus service," agreed Chris

Schneider, Chief Executive of Texas-based Access ATM, a distributor with some 4,000 machines under contract.

The company is boosting its credit card profile after allowing the business to become dormant over the past several years, and hopes to add more merchant accounts to the 6,000 or so it already services.

Schneider ran a credit/debit company called Merchants Choice Card Services before switching to ATMs in the late '90s because of the higher margins. At the time, he said, most of his ISOs did not want to offer what they saw as a competing product.

Many ATM ISOs have developed a different perspective as the industry has matured, he said. "A lot of the same guys are asking me about doing credit cards."

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Margins are lower on the credit card side, with per-terminal revenues that often do not exceed \$15 a month, Schneider said.

"That's why it makes sense to offer a combination of products. Unless you are very big, it's going to be very tough today to just do credit cards."

Access ATM offers all types of credit and debit services and a number of check-related services including conversion, guarantee and electronic re-presentment. While few of its ISOs currently sell more than one product, Schneider expects that to change.

"If you can add it to the mix and it's not costing you more money to do so, there's business out there for the taking," he said.

Doug Falcone, Chief Executive of Access to Money, a New Jersey ATM distributor with some 5,500 machines under contract, gave credit/debit sales "a full-court press" for about a year and gained about 100 merchant contracts before deciding to abandon the effort.

"There are no margins left in the machines, and we were making less than \$10 a month per terminal," Falcone said. "It was causing us to take our eye off the ball a little bit. We decided to focus on our core business and continue building on our good name in ATMs."

Unlike ATM ISOs, Enrique said, credit card ISOs make little if any profit on hardware sales. Margins on transactions are lower, but there is far more volume.

"ATMs are starting to see diminishing margins on hardware, which we've already experienced in the credit card world. But we haven't seen the decline in transactions that the ATM business has," he said.

"Point-of-sale transactions at any location are going to outnumber ATM transactions by far."

### Different Animal

Jerrel Olive, a 30-year veteran of the merchant processing business, began selling ATMs three years ago.

"It was a lot easier for me to cross to ATMs than it's going to be for most ATM guys to cross to credit cards," said Olive, a general partner with Bankcard Service LLP. "Credit cards are an entirely different animal."


According to Olive, there are hundreds of different types of credit/debit transactions, with varying levels of interchange, compared to a relative handful of ATM transactions. Contracts are more complex.

Some businesses popular with ATM deployers, such as gentleman's clubs, may be off-limits because of problems associated with chargebacks.

Enrique said Best Payment Solutions hopes to help ATM ISOs narrow the learning curve by offering a turnkey program to ISOs through larger distributors like WRG.

"We want them to be able to rely on us as much as they need to for support; we can transition more of the business to them when they feel more comfortable with it," he said.

Olive believes that credit/debit can become an ancillary revenue opportunity for ATM ISOs, but he said most will need to undergo training before offering the services to merchants.

"With ATMs, you can pretty much learn as you go along," Olive said. "It's not that way with credit cards. It's like driving a model T and then getting into a Ferrari. You can drive it, but you need to know a lot more about how it handles or you could hurt yourself." 

Original article: [www.atmmarketplace.com/research.htm?article\\_id=21865&pavilion=50&step=story](http://www.atmmarketplace.com/research.htm?article_id=21865&pavilion=50&step=story)

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**S**urely by this time you've heard about The Green Sheet's booth at the 2005 Electronic Transactions Association (ETA) Annual Meeting and Expo March 15 - 17 in Las Vegas. Certainly you've heard people talking about our "Greentastic Voyage" ETA giveaway.

It never hurts to repeat fabulous news like this, however.

This year, for the first time, The Green Sheet is proud to announce we will have a booth in the ETA Expo Hall. Our prime location, just inside the Expo Hall entry doors, will make it easy to find us at Booth #1630; it's definitely one that no ETA attendee will want to miss.

To mark the occasion, Julie O'Ryan, President/Editor in Chief of The Green Sheet Inc., announced last month our "Greentastic Voyage" giveaway: a once-in-a-lifetime adventure including airfare, four-star accommodations, transportation and \$4,500 cash for the winning ETA attendee and a guest.

The winner will decide whether to spend two weeks rejuvenating Hawaiian style swimming, surfing or laying on the beach in Maui, or two weeks discovering the other

end of the earth in South Africa, on safari with lions, giraffes and elephants in Kruger National Park.

To enter to win, ETA attendees should stop at The Green Sheet booth to fill out a questionnaire. There are restrictions; please read "The Fine Print" below.

If you'd like to make an appointment with a member of The Green Sheet staff while you're in Las Vegas, there will be plenty of room at the booth to accommodate meetings. Visit [www.greensheet.com/eta05/html](http://www.greensheet.com/eta05/html) to e-mail the person you'd like to meet with.

Watch for more details on our "Greentastic Voyage" coming up in print and online.

We'll see you in Las Vegas at Booth #1630! 

*NO PURCHASE NECESSARY. To enter: Complete The Green Sheet questionnaire on site at ETA's Annual Meeting and Expo; one (1) entry per person. Drawing will be held during Happy Hour on Wed., March 16, 2005 at The Green Sheet booth. Prize is non-transferable, cannot be redeemed for cash equivalent and no substitutions may be made. Winner must be present to win!*

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United Bank Card, Inc. (UBC) is a payment and transaction processor serving businesses nationwide. UBC currently handles the merchant accounts for over 18,000 locations and processes in excess of 2 billion dollars annually. United Bank Card assists over 650 contracted ISOs around the country in building profitable merchant portfolios. UBC operates out of two main offices located in New Jersey and Arizona offering an entirely in-house processing solution from underwriting and risk management to customer service and technical support. United Bank Card earned 3 honors in the Green Sheet's "Best of the Best" Reader Surveys including "Best Customer Service" by an ISO and "Top 5" nominations for "Best Processor" and "Best ISO Organization". UBC was also ranked as the 48<sup>th</sup> largest processor by volume in 2004 by the Nilson Report. United Bank Card is continually making advances in the payment processing industry and providing free credit card equipment is just another example of our commitment to innovation.

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# Computer Guy Goes Old-school and Writes a Book

**W**hile the title, or subject matter, of this newly published book might not roll off the tongue with ease, visitors to GS Online's MLS Forum will surely recognize the author's name.

The Green Sheet Inc.'s own Systems Administrator, Kyle Rankin, wrote "Knoppix Hacks," recently published by O'Reilly Media Inc., a company that provides information sources on computer technologies.

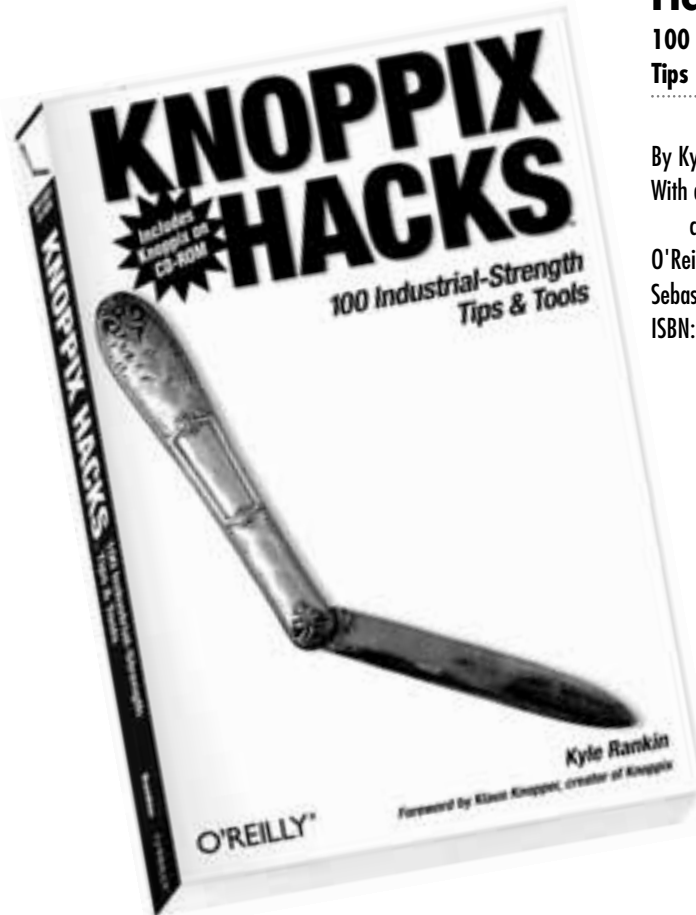
This is one of a series of O'Reilly "Hacks" books, and Kyle's knowledge of and fondness for the portable open source Knoppix system creates a tool for computer users that's as handy and flexible as a Swiss Army knife.

The "Hacks" books provide "100 industrial-strength tips and tools" for using a variety of programs and systems. (Kyle reviewed "Google Hacks" in The Green Sheet, March 8, 2004, issue 04:03:01.)

Kyle's is the first book on Klaus Knopper's portable Linux distribution. In it, Kyle shares his extensive knowledge of Knoppix to show new users and experts alike how to use the enormous amount of software on the CD to troubleshoot, repair, upgrade, disinfect and be more productive, even using Windows.

"The idea behind the book is that since you have all these programs and utilities on one CD, it would be good to write down everything you can do with the software," Kyle said.

"These things include repairing and recovering system files, checking e-mail, browsing the Internet and word processing. All your programs are on one CD, and you can take them with you and run them on any computer."



## "Knoppix Hacks"

100 Industrial-Strength Tips & Tools

By Kyle Rankin  
With a foreword by Klaus Knopper,  
creator of Knoppix  
O'Reilly Media Inc.  
Sebastopol, CA, 2005  
ISBN: 0-596-00787-6

Kyle has been an enthusiastic Linux proponent since 1998, and his book provides the kind of technical detail you'd expect. Not only does he have a lot to write about, he has a lot to say about it, too: He does regular presentations to local user groups, and in 2004, he spoke at two national Linux conferences.

What's it like being a published author? Kyle said he's not used to the lime-light, and the attention is a little embarrassing, but he feels a real sense of personal accomplishment over seeing his ideas in print.

We think it's totally awesome that we have somebody so smart working at The Green Sheet because sometimes we don't know what Kyle's talking about, and we'd be lost without him.

We're glad he's here to keep our network humming, our Web site an excellent resource for payments news and information, and the MLS Forum such a comfortable place to exchange ideas. ■



## Check Conversion to Push ACH Growth

**W**ith a decline in the overall volume of paper checks and an increase in electronic payments, the payments landscape is changing, driven largely by the automated clearing house (ACH) network.

Electronic Transactions Association (ETA) defines the ACH network as "the nationwide network for the electronic transfer of funds." It's the network driving direct deposit, electronic bill presentment and payment (EBPP) and electronic check payments. The ACH connects the financial institutions from which funds originate and are received, and there are eight primary entities in the ACH network, including the Federal Reserve.

Recent data from research and advisory firm Financial Insights (FI) indicates that the ACH will grow at a compound annual growth rate of 13% from 2003 – 2008, reaching \$47.2 trillion in total dollar volume. And by 2008, check conversion will consist of 20% of all ACH transactions.

In a report titled "The Changing ACH: Market Analysis and Forecast, 2003 – 2008," FI analyst Aaron McPherson predicts that the network's future growth, however, will

depend on the development of new payment applications, particularly check conversion for corporate, or business-to-business (B2B), checks.

"Banks must be more aggressive about developing new ACH-based services, both in order to prevent encroachment by larger banks and non-banks, as well as to replace revenue being lost from check processing and cash management services," McPherson said in a statement.

"Business-to-business payments have the most promising growth prospects, but also represent the greatest challenge to banks to adapt. The ACH has the potential to accelerate the consolidation of the banking sector, by handing the largest and most aggressive banks the tools to steal market share from rivals."

In light of this news, you might want to brush up on your understanding of the ACH and its processes. NACHA – The Electronic Payments Association recently published its "2005 ACH Rules: A Complete Guide to Rules & Regulations Governing the ACH Network." The book is \$33 for members and \$55 for non-members.

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# CompanyProfile



## Tender Retail Inc.

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John Hughes, U.S. Business Development Manager

Phone: 480-545-1817

Fax: 480-632-7701

E-mail: [johnh@Tender-Retail.com](mailto:johnh@Tender-Retail.com)

### Company addresses:

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Toronto, Ontario, Canada M2J 4V6

Phone: 416-498-1200

Fax: 416-498-0255

Web site: [www.Tender-Retail.com](http://www.Tender-Retail.com)

### Attitude Positive Inc.

1990 Westwood Blvd., Suite 265

Los Angeles, CA 90025

Phone: 877-888-0880

Fax: 310-475-5747

Web site: [www.POSMadeSimple.com](http://www.POSMadeSimple.com)

### MLS benefits:

- Earn cash profits on system sales
- Justify bankcard processing conversion
- Deliver value to the small business
- Avoid losing sales to software and systems providers
- Prospect and build referral business

## Making the POS Simple

**M**erchant level salespeople (MLSs) have no doubt noticed the trend of some merchants moving away from the use of electronic cash registers (ECRs) and dial-up point-of-sale terminals.

Some merchants now prefer using a personal computer (PC)-based POS system. In fact, Gartner Research predicts that more than 1.8 million small U.S. retail businesses will upgrade to a PC-based system that shares transaction data with business accounting software.

MLSs might be concerned that this indicates a potential significant reduction in their equipment revenue, if these merchants no longer need a POS terminal. Or they might worry that it will adversely affect their ability to acquire new business, upgrade or convert existing merchants to a PC-based system because many PC-based POS systems have software that is not compatible with all processors.

MLSs might encounter further difficulties if the system has imbedded, exclusive connections to a merchant bank, as is the case with Microsoft Windows Rights Management Services (RMS), an information protection technology that helps safeguard digital information from unauthorized use.

But there's good news: Two companies have taken this trend and turned it into an opportunity for

MLSs. Tender Retail Inc., a manufacturer of credit and debit electronic payment software, has partnered with Attitude Positive Inc., a manufacturer of small business POS systems, to create POSMadeSimple.

"This product allows the ISOs to control the entire sale, profit from the system sale and secure the bankcard relationship," said John Hughes, U.S. Business Development Manager for Tender Retail. "We see to it that ISOs and bankcard agents can profit from this new trend in small business as opposed to being damaged or inhibited by it."

The POSMadeSimple system acts as a front end for the merchant's existing business accounting software and captures and exchanges transaction information with that software. "It is not a conventional, complex POS System," Hughes said. "It is as easy to understand and sell as a modern bankcard terminal."

The system's complexity is in the accounting software, with which the merchant is already familiar. Therefore, merchants find it to be a simple, reliable software solution that captures and processes all forms of payment.

"The era of the dial-up bankcard terminal and the electronic cash register is rapidly coming to an end," Hughes said. "The merchant of today realizes the benefits of Internet-based processing and the integration of all transactional activ-

### CompanyProfile

ity with the accounting and inventory systems."

Tender Retail and Attitude Positive have been in the industry for quite a while. Tender Retail was founded in 1985, and Attitude Positive was founded in 1996. Both companies have a market presence in North America, Central Europe and Puerto Rico. In fact, Tender Retail is the leader in electronic payment software in Canada and the company is rapidly expanding distribution here in the United States.

#### A PC-based System

What exactly is POSMadeSimple? It's a PC-based POS solution that includes both software and hardware. The system comes with the Tender Retail electronic payment software that communicates via the Internet with the bankcard platforms, eliminating the need for a separate card terminal and phone line.

The system is deployed so it's complete and ready to go once the merchant receives it. The merchant takes it out of the box, plugs it in and activates the link to the accounting software.

Information including the merchant's inventory, prices, costs, etc. is loaded into the accounting software. The sys-

tem is preconfigured to the selected processing platform; there is nothing to download or set up.

What makes this product a good fit for MLSs is that it was designed specifically for banks and MLSs to replace stand-alone terminals and complicated third party electronic payment software. The system works best for small to mid-sized businesses and integrates seamlessly with QuickBooks, Peachtree and Business Works. In fact, Attitude Positive is the only POS software endorsed by Peachtree.

Transactions are instantly updated to the merchant's accounting software, automatically updating inventory, accounting ledgers and customer records. Additionally, POSMadeSimple is scalable and can be configured to incorporate any value-added solution, such as gift cards, prepaid phone cards and payroll cards.

"The system is economical, very easy to sell and even easier to use," Hughes said.

The system is available in two versions, depending on whether a merchant already has a PC or not. One version, POS PC Partner, includes everything a merchant needs to turn an existing PC into a complete POS system, includ-

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The other version, POS Complete, includes everything that POS PC Partner does, as well as a 40 gigabyte PC, Windows XP operating system and a touch-screen monitor. Both versions are EMV-compliant and PIN-pad ready and will handle an ISO's/MLS' gift, check, phone card, EBT and other solutions.

### A Product Designed With MLSs in Mind

The company specifically designed and packaged POSMadeSimple for the bankcard industry to sell. "Our customer is the MSP, ISO [or MLS] who wishes to offer a solution to their small merchant clients and have access to a prospecting tool

that makes it easy to add new merchants," Hughes said.

"We have to get out of the box in our thinking and deliver solutions to agents that deliver value to the merchant. With the proper training, any MLS can convert merchants easily with this solution by saving them thousands of dollars a month in time, 'out of stocks,' cash tracking and customer management."

The company offers extensive training to agents in how to use this concept as a business development and prospecting tool. "Some agents are giving talks and seminars at local chamber of commerce meetings on how to turn their QuickBooks or other business accounting software into an electronic POS system," Hughes said.

The company provides agents with Web training sessions; sales training

seminars at the agent's location; a sales manual; electronic and hard copy customizable presentations; downloadable, free trial versions for prospective merchants; and cooperation with agent's lease company of choice.

"We actually will complete the sale for the agent," Hughes said. "Our sales specialist will contact the merchant, evaluate their needs in detail and close the sale for the agent." Tender Retail's mission is to teach the agent how to become an expert resource to the merchant and deliver this solution successfully.

The company uses buy rates, and agents earn 100% above cost. MLSs can acquire a method of selling small businesses as well as a significant source of profit and income.

"There is a great deal of money to be made here for the agent who is will-

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## Company Profile

ing to learn how to take a new sale approach," Hughes said.

Other benefits to MLSs include cash profit on the sale of a system, a way to justify the conversion of their bankcard processing, and a tool to prospect and build referral business.

### A Target Market

What types of merchants benefit from POSMadeSimple? "This system is ideal for any small retail, food service or personal service business of under \$1,000,000 in sales who does not need a complex and expensive POS system," Hughes said. "That is 80% of all U.S. small businesses."

Merchants can customize the POS screen to reflect their products, features and applications. The system does not use a keyboard, so there's no need to learn keystrokes or codes.

Merchants and their employees simply use a touch screen or mouse and "point and click."

The touch screen is especially valuable for quick service restaurants and convenience stores or any merchant location where speed at the POS is essential.

Another feature merchants find attractive is the ability to network multiple locations from one central PC. Rather than driving from location to location and programming each station individually, merchants can add stations or make changes to the system remotely at any time.

An additional merchant benefit is that the system processes all payment types through one system and updates inventory dynamically. It also automatically generates purchase orders. Merchants can create a customer relationship database to

increase business from repeat customers.

### Let's Get Started

Merchants' use of PC-based POS systems over ECRs and dial-up terminals opens up new opportunities for MLSs. Those who act quickly and take advantage of this market trend will be the ones who benefit most.

Where to start? According to Hughes, "92% of all small retail businesses in the United States use QuickBooks, Peachtree or Business Works. Any of those small businesses are potential customers for the POSMadeSimple.

"The program saves merchants time in data entry, eliminates 'out of stocks,' makes deposits, tracks cash and creates reorders." Sounds like a pretty good start.



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# Company Profile



Empowering the MLS for Success

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Birmingham, AL 35243

Phone: 877-972-0700

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MLS Direct Network Inc. is one such group. It's a member-owned cooperative network designed specifically for the merchant level salesperson (MLS). The organization combines the transaction volumes of all of its members, or partners, and uses those volumes to negotiate better pricing and more secure contractual terms and to provide benefits.

MLS Direct seeks to accomplish this by using 20% of the profits its partners generate by providing the following services to merchants: credit and debit card processing; check conversion and guarantee; check re-presentment (RCK), automated clearing house (ACH) and accounts receivable conversion, gift card processing, cash advance, wholesale equipment and equipment leases.

It passes the other 80% of the profits back to its MLS partners.

Each member of MLS Direct is a stockholder and part owner of the company. Members receive full financial disclosure, 80% residual payout over true costs, legal representation from the organization's

own in-house attorney, strategically negotiated vendor contracts, true lifetime residuals and inheritable residuals. Partners also earn 100% of the revenues on equipment leasing and sales.

MLS Direct pays residuals by the 27th of each month, and it does so via the ACH. The organization generally only has residuals in possession for three days before distributing them.

Because MLS partners own stock in the company (with potential dividend payouts), they all have a broad level of input from other member partners, which in turn creates a high level of participation from each office.

### Economies of Scale

MLS Direct is the result of the efforts of Andy Pitts, President of the company. Pitts founded it because a few years ago he decided that he had had enough.





He began his career in the bankcard business as an MLS. He loved the business, loved working for himself, and loved the product that he sold, but he didn't particularly love the organization he worked with, so he went out on his own.

He said he quickly learned the back-end part of the bankcard business, and within four months, he had his own office and two reps working for him.

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<b>MERCHANT APPLICATION</b> <small>Your active session will expire after 30 minutes of inactivity (* optional field)</small>			
<b>BUSINESS NAMES</b>			
Legal Name: [MIXE RESTAURANT]	<input checked="" type="checkbox"/> CHECK TO COPY FROM LEFT TO RIGHT	Name of Account(Doing Business As): [MIXE RESTAURANT]	
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## Company Profile

**" ... Throughout my career in this business, I'd been through the gamut. I'd been the MLS; I'd been the registered 'ISO-MLS.' Every time I moved up to what I thought was a different level in the business, I never really got the residual protections that I needed. It just got to the point where every time I was taking two steps forward, I was taking two steps back. ... As a 25-deal-a-month entity, I felt I was always going to be stepped on by the larger players in the business."**

- Andy Pitts, President, MLS Direct Network Inc.

"But throughout my career in this business, I'd been through the gamut," Pitts said. "I'd been the MLS; I'd been the registered 'ISO-MLS.' Every time I moved up to what I thought was a different level in the business, I never really got the residual protections that I needed.

"It just got to the point where every time I was taking two steps forward, I was taking two steps back. It got very frustrating. As a 25-deal-a-month entity, I felt I was always going to be stepped on by the larger players in the business."

Pitts said he thought a lot about the economies of scale an MLS cooperative network would provide, especially when having to go through any type of legal process to protect one's residuals.

"I always thought that pooling your resources was the way to go," he said. "If there was a group of us, a 200- to 400-deal-a-month entity instead of a 25-deal-a-month entity, then collectively we would be more powerful, especially in terms of dealing with contractual issues.

"It's expensive to see a contractual issue all the way through the legal system."

Pitts founded MLS Direct in January 2004 and incorporated it four months later. A Board of Directors, whose members prefer to remain anonymous, helps run the company.

### A Select Group

MLS Direct is a Delaware S Corporation, and in order to maintain its "S Corp." status, it will only have 75 partner (stock-owned) offices. At its current rate of growth, Pitts said he expects to fill all of the slots by the end of 2005.

"At that point ends our external recruitment for ownership of offices," he said. "We'll then have our core of offices that can grow themselves and recruit more agents."

Pitts said that MLS Direct is not for every MLS. The organization is looking for partners with at least one to two years' experience in the industry, who sign seven to 45 deals a month, and, ideally, with their own established independent sales office.

"If they haven't made that real transition into being an independent office, then they're not really the best candidate for us," Pitts said. "In fact, our average tenure is over five years in the business. Most of our offices are very well developed."

For instance, candidates should already have direct relationships with leasing companies and equipment vendors in place; they should also know how to do terminal downloads. "We're assuming that by the time they come to us, they understand that part of the business," Pitts said. "We have a screening process that weeds out the tire kickers and the industry green peas."

Before candidates can join the network, they must provide proof of at least one year in the industry; they must pass a background check; and they must take an exam that tests their industry knowledge.

"Some inquirers are surprised when they realize that we don't just randomly send out a package to anyone who calls," Pitts said. "But our vendor partners know that when someone joins our network, they have passed some of the highest scrutiny in the industry. Our member partners also have the confidence of knowing their fellow partners are of the highest caliber."

The industry exam MLS Direct requires conjures up flashbacks of test-taking in school for some people. "We're finding that many people in the industry are not as secure in their industry knowledge, and when they're faced with the concept of having to be tested on it, it really scares them," Pitts said. "We have people more concerned about the exam than any other part of our process."

However, he said there's no need to worry about it too much. The exam consists mostly of true/false and multiple choice questions. It's not a pass/fail test. It's more of a way for the organization to discover how much someone really understands about how the industry works.

### The Support Is There

Even though MLS Direct seeks more experienced MLSs as partners, this doesn't mean that plenty of support doesn't exist for them. The organization has several full time staff members dedicated to answering phones all day long.

"This is what distinguishes us from the one or two others out there doing this type of network," Pitts said. "We have a very strong central office; we're very centrally structured."

MLS Direct has its own terminal "control center," which assists in building terminal applications; it also has in-house legal representation. MLS Direct's attorney received a certain amount of company stock in exchange for services rendered. "He put together all the legal documents for the company, and his initial function is to help with residual issues," Pitts said.

The national help desks of the processing networks with which MLS Direct works provide the customer service. And they all provide 24/7/365 support.

"I've been in this business less than

three years, and the issues that I have are usually related to customer service issues or someone not completing what they promised," said Ernie Crews of MLS Direct of Southern California.

"I reached a point where the majority of my time was spent chasing down solutions to those problems. I was looking for someone I could associate with who would alleviate some of those major issues.


"I was also looking for a company where I could get good pricing. By partnering with MLS Direct, I've been able to eliminate some of these issues."


As President of MLS Direct, Pitts said he wears many hats. He's been known to help build files for terminal downloads, and he spends a lot of time in contract negotiations and in getting new MLSs on board. He

also takes miscellaneous calls from the members throughout the day.

"This type of organization is not an easy one to manage," he said. "You've got to have a really strong structure to pull it off. You are also working in an industry with a lot of skeptical people who have been burned over and over again, so you have to earn their trust and show them how you are different."

The company is a little over a year old, and things are going well. Beginning in its third month of operation, MLS Direct generated enough residual revenues to cover its operating overhead, and still while only working with 20% of the profits.

And it has already signed up 21 MLS partners without doing any real advertising. There are only 54 member slots left. Will you be one of them? 



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## PCI Standard From Page 1

We all know that complying with standards to protect cardholder account information makes sense, but when there are a seemingly overwhelming number of standards and rules to follow, what it means to be compliant isn't always crystal clear.

Business owners might grumble about the added expense of conducting assessments and fixing vulnerabilities in their systems; they might procrastinate over submitting paperwork, and they might be confused over exactly what it is they're supposed to do. They might not even be aware that they're at risk.

The bottom line, though, is maintaining the integrity of the data and the systems that transmit them.

### One Common Language of Compliance

The card Associations have worked diligently to establish standards of security for protecting their customers' accounts; banks, acquirers and processors are expected to implement the standards and follow the regulations.

Visa's Cardholder Information Security Program (CISP); MasterCard's Site Data Protection (SDP); American Express' Data Security Operating Policy (DSOP) and Discover's Information Security and Compliance (DISC) are all specific programs that spell out requirements for the systems that handle transaction data.

The downside to this has been that until recently there were four separate sets of standards to comply with, four reports to file, and so on. Despite their similarity of purpose and content, each brand maintained its own program.

Now comes the Payment Card Industry Data Security Standard (PCI), the alignment of MasterCard's and Visa's security requirements. The Associations officially introduced the new standard in December 2004.

Before your merchants stage a mutiny, ISOs and merchant level salespeople (MLSs) should understand that this is not yet another set of rules to follow, but a collaborative effort between MasterCard and Visa to simplify the process and get everyone on the same compliant page.

PCI is a reorganization of the fundamental foundations of CISP and SDP, according to John Shaughnessy, Senior Vice President of Fraud Control and Operations with Visa U.S.A. "Both the CISP and SDP programs remain unchanged," he said. "The PCI Security Standard was created to provide a common and more efficient framework for both.

"Merchants and service providers will now be able to assess the status of their security by using a single validation process for all card companies. This will result in lower costs, reduced complexity and wider acceptance of standard security requirements for the industry."

"PCI standards are really just technical requirements," said John Verdeschi, Vice President, eBusiness and Emerging Technologies for MasterCard International. "The security program that acquirers deploy to their merchants is SDP, which is based on the requirements of PCI.

"Think of PCI as being in the middle, forming the foundation for MasterCard's SDP program and Visa's CISP program."

PCI standards are not new or innovative approaches to security. The requirements incorporate many principles of data security best practices, with adjustments to accommodate considerations in payments.

"PCI is based on a lot of well-known security practices and common sense, but it's also based on our own experiences over the last couple of years in response to breaches," Verdeschi said. "The standard is focused specifically on the payment card industry and what an entity can do to protect card data that is stored."

Financial services is an area that is certainly well regulated by industry organizations and the government, but trying to make those established standards fit payment processing like a glove often leaves issues unaddressed.

"Many times we're asked, 'Is Sarbanes-Oxley enough? Is this standard enough?' and the response is 'No, not necessarily,'" Verdeschi said.

The fact that the two card Associations put down the gauntlet long enough to establish a common industry standard says a great deal about how critical they feel the threat from fraud is.

In fact, PCI has been endorsed by other card brands in the United States and globally, according to both Shaughnessy and Verdeschi. With that endorsement, and with the incorporation of the standards as the frameworks for their respective security programs, PCI establishes a worldwide standard for consumer data protection across the payments industry.

It's not only that the frequency and types of fraudulent activity have increased recently giving cause for concern. The increase in e-commerce transactions, as well as the increase in merchants using Internet protocol (IP)-based payments solutions to transmit transaction information,



also contribute to fears over fraud. Even merchants who are just connected to the Internet or who use e-mail are at risk.

"Data security is very much seen as a non-competitive issue, and one that is really for the good of the payment card industry as a whole," Verdeschi said.

"Over the last couple of years, MasterCard and Visa have pursued different but related approaches to protecting account data. Our common goal is to protect the account numbers of our cardholders, which are being stored by various merchants and service providers on the Internet and elsewhere.

"We've realized that while we have similar goals, having different approaches is counter-productive. What we're looking for is mass adoption of security measures," Verdeschi said.

PCI is comprised of 12 main requirement headings and sections and sub-sections within those. These apply to all members, merchants and service providers that store, process or transmit cardholder data, including, but not limited to, firewalls, routers, databases, e-mail services, wireless access points and internal and external Web applications.

With PCI, the card Associations have redefined merchant levels to include a broader swath of e-commerce transactions than SDP or CISP.

J. Chris Noell, Vice President of Business Development for Solutionary Inc., a security assessment and risk management consulting company, said merchants' experiences have been unlike those of banks or financial institutions, which have been dealing with compliance and regulatory issues for years. For merchants, the mindset is completely different.

"The average merchant, and it doesn't matter how large they are, doesn't always fully understand the complexity of the process and why this is so important," Noell said.

Communicating compliance information to merchants becomes the responsibility of sales agents, as their direct connection with the payment card industry.

### Fraud's New Look

The sophistication of fraudsters and the methods they employ increase all the time.

One excellent example is the 62-count indictment handed down in October 2004 by a federal grand jury following an investigation by the U.S. Department of Justice (DOJ) against the so-called Shadowcrew Operation.

According to the DOJ, 19 individuals from the United States and several other countries operated a Web site called "Shadowcrew" with 4,000 members whose sole purpose was to facilitate the theft and distribution of bank account information and identification documents.

Shadowcrew members allegedly trafficked a minimum of 1.7 million stolen credit card numbers and caused losses in excess of \$4 million, an amount that Noell said is likely an understatement.

"Look at the threats PCI is designed to address," Noell said. "The threat is hackers out there becoming increasingly organized, international and professional. The face of the criminal has changed; it's not teenagers who play Dungeons and Dragons on the weekends anymore.

"They're more profit-oriented and realize the increased potential for success over old-fashioned card-skimming, where you have to be physically present to commit the crime and get one card at a time. The new easy way allows them to stay in a country where what they're doing might not even be illegal, compromise a merchant database that stores millions of cards, and get access to 100,000 at a time," he said.

Everyone agrees that something like PCI had to happen, not only in response to the increase in e-commerce but also because there are now more merchants with Internet connectivity and using IP-enabled terminals to process payments. The implementation of a single language that applies to anyone who touches cardholder data leaves no room for guessing who's responsible for what.

"This is extremely important because the environment we're all working in is growing more and more complex," Verdeschi said. "There are more entities participating in it, and there are more touch points. It becomes important that the industry have one source to go to to learn how to protect that data."

"From a risk perspective, if you have any connection to the Internet, and your network is also connected to your database where you store cardholder and transaction information, it doesn't matter if you're doing e-commerce or brick-and-mortar," Noell said.

"Someone can compromise your Web site, e-mail or other service and use that to penetrate into your internal network and get to that database, and that's what matters."

Verdeschi said that keeping abreast, and ahead, of the fraudsters is one of the challenges security developers face; PCI, as the common standard, allows the industry to be a lot more nimble in its overall response. The ability to update PCI is one of the program's key factors.



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"There will always be new threats and we need to be able to react to those," Verdeschi said. "Our intent here is to be proactive, but at the same time, you have to be reactive. You have to work both of those in tandem."

Shaughnessy agreed, and said that the ultimate goal is to provide consumers with a positive, secure transaction experience. "This is the best insurance out there," he said. "Fighting fraud is an ongoing battle, and the whole industry continues to rally around coming up with effective data security solutions."

"The most important thing here is that what you're seeing is the industry is coming together and stating emphatically that data security is a non-competitive issue," Verdeschi said.

"It is a critical issue for the industry, and by having one standard, we've raised the bar and we're setting an expectation that if you want to participate in the payment industry, it is expected that you will secure data in accordance with the data security standard.

"Our belief is that if the industry is working together, it's only better for everyone."

When merchants gripe about looming deadlines for validation paperwork, the hassle of going through assessments and the expense of repairing weak links in their systems, ISOs/MLs should take the opportunity to educate them, and to direct them to processes and equipment that will enable their compliance.

"I believe that ISOs have a nice market opportunity that many are not capitalizing on," Noell said. "As you go through the security assessments, you find that a lot of the older payment processing and POS gear will have to change and be upgraded."

For example, he pointed to regulations regarding card account number truncation, which say that only a few of the digits can be printed on receipts.

"Maybe a merchant has a really old system that prints the whole number; that's a sales opportunity for an ISO, and there are a ton of others," Noell said. "They can be recommending and referring [security and compliance assessment consultants] and taking a piece of the action."

"Sales agents are the ones with the relationship with the merchants, and from the merchant's perspective, I think they'd like to see one party taking responsibility for all their payment processing issues, not just the non-security-related ones," he said.

"There's an opportunity for them to profit from these security standards."

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# AgenTalk<sup>SM</sup>

## Building a Business With Drive and Wit

**By Matthew Swinnerton**

*Merchant Services Direct*

Anyone who has spent time on The Green Sheet's MLS Forum on GS Online should recognize the name "Tazman." If a hall of fame existed for the Forum, then Tazman would definitely be included. Tazman's real name is Todd Sumrall. He's with Total Merchant Services Inc. of Florida, and he certainly keeps things interesting.

He speaks his mind and always has something funny to add. With that in mind, make sure you read my entire interview with Todd; you won't be disappointed.

**Matthew Swinnerton:** Why and how did you enter into this industry?

**Todd Sumrall:** I entered by accident or most likely by fate. I was thinking "big commissions" and wanted no clock to punch and no boss. I was also thinking "residual income."

I was a blue collar welder who had Champagne taste but a beer budget. I hated welding, so I had to find something else. I thought that something was Amway. But after drawing so many circles that I got writer's cramp, and after buying so many tapes and books that my bank account was \$1,000 lighter, I realized Amway was not the way. My mother simply did not have enough money to buy enough Amway products to keep me fed and clothed.

It was a good thing that I didn't quit my day job. But I will say, Amway gave me the best opportunity that I've ever had because my eyes were opened to the world of sales. I finally figured out what I wanted to do with my life. I wanted to be a salesperson because they get rich and don't punch a clock or have a boss. It was simply a matter of finding the right sales job. So I bombed with Amway, so what.

Once I realized Amway wasn't the way, and the opportunity to quit my job and try my hand at sales without the risk of losing my shirt and bed appeared, I jumped on it. I sold ADT home security systems, and I was good at it.

In my second month, I made the wall with a plaque, and by my third month I had broken every sales record the company had. But by the fourth month I realized this

was not what I wanted because I had to work until 10 p.m. knocking on doors in bad neighborhoods and do it six days a week to get all those sales. I did end up losing my shirt anyway, though.

I applied for a business-to-business (B2B) copier sales job but was declined. The next day I bumped into a friend I hadn't seen in over a year. He was excited about some sales job selling credit card machines.

I saw that it paid \$300 per sale, which was twice what I made from alarm sales, so I invited myself to the training class.

The instructor made a brief comment about residual income, and I understood then that I had found the sales job I wanted. Thirty days later I convinced Leasecomm and TASQ Technology to overlook my recent bankruptcy, and I was in business for myself.

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### AgenTalk

I've never looked back. I didn't get a residual check for over two years, but with \$1,000 in lease commissions I didn't care. (At least not until eBay changed the prices of the terminals and Leasecomm quit leasing Authorize.Net.)

By 2000 I was paying my mom \$1,000 a month to work 20 hours to keep me organized and do my books. But I had to fire her after six months because the "son as boss" arrangement wasn't working. (The good news is that I recently rehired her.)

**MS:** What has kept you going for so long?

**TS:** Sleeping 'til noon, residuals, my fascination with the industry ... my dream of big business. I simply cannot go back; it's too late for that.

**MS:** Do you focus on a certain market?

**TS:** MOTO/Internet. They pay better residuals than retail. I get to work as much or as little as I want. I've attempted to get into level II- and level-III accounts as a niche, but those tend to be very big-ticket and very large-volume merchants who are already processing and won't endure too much of my hoop jumping to get approved.

For now I have quit trying to get those accounts. I believe that once the right opportunity comes, I will go after them again.

**MS:** When did you start selling bankcard processing on the Internet?

**TS:** My mom gave me an old 486 computer, and I discovered the Internet. Not only did I discover it, but I realized I could somehow get my stuff on the net and sell it, which meant no more door knocking.

By day I sold on the street and by night I built crappy Web sites that were hosted on free servers. I also studied Internet marketing. This was from 1998 - 99.

After about a year of no sleep, I finally sold a merchant account through my Web site. I learned shortly afterward that I should not have a big blue blinking e-mail box on my site; the emerald green marble background had to go as well.

I realized that I needed to cough up money and give it to VeriSign to get a domain name and a real Web host. Then all of a sudden, I'm number one on Excite with the search term "merchant account." Business took off.

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**MS:** What do you think about the MLS Forum?

**TS:** The Forum can be a very fun place to be. A lot of informal education goes on there, and a lot of opportunities are created there. It's pretty amazing to me. I've had lunch with a few of the members (most recently "Siggy"). It's good to meet them in person when possible.

**MS:** What do you think will be new and exciting in the industry in 2005?

**TS:** PayPal goes bankrupt? I hope, anyway. Everything seems new. The entire POS terminal and Internet landscape has changed over the last two years. Keeping up with the changes has been a challenge.

**MS:** What factors cause you to choose one processor over another?

**TS:** Revenue share; residual protection; right to multiple relationships; favorable risk-free underwriting policies; pricing help; and training.

**MS:** How has The Green Sheet helped you?

**TS:** It's the "University of Merchant Account Studies" in

print, and the MLS Forum is a major benefit to me. The ISO connections and contacts I've gained from the Forum simply have made my life better, at least most of the time.

**MS:** What kind of training did you receive when you started?

**TS:** It was the best training I've ever had. It was so good that I sold an account the very first day on the street. But I fired the company I worked for and went out on my own within 30 days from the first day of training. The company should not have tried to hide the lease profit and residuals from me. I'm no dummy!

**MS:** Do you attend any national or regional association events?

**TS:** The next time one comes to Orlando, Fla., I'll be there unless I'm at another convention drumming up business. Hurricane Jeanne ruined the trip that I won to the Southeast Acquirers' Association for submitting a story to the "Street Smarts" Feedback contest in 2004.

Because of the hurricane, I wasn't able to go. I'll make the events that I can when they come to Atlanta or Orlando, but otherwise I do not care to fly.

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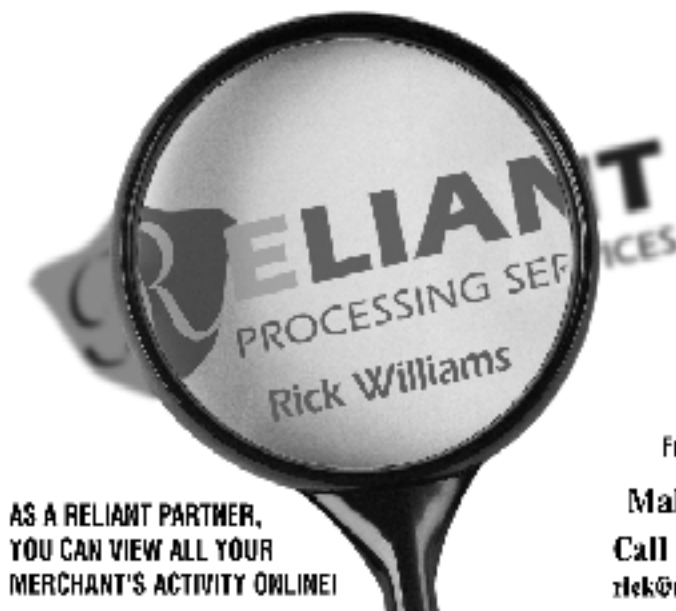
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# AgenTalk

**MS:** How do you feel about selling value-added services? How important are they to you? If you do sell them, which ones do you sell?

**TS:** I think a value-added solution is a great tool for selling. I've provided Web hosting and other e-commerce services since 1999. I have an entire Web hosting side to my business as well. The things I'm asked to push like gift/loyalty simply are not Internet compatible, so I do not sell much along those lines.

However I do sell Authorize.Net's value-added solutions. It's right down my alley. I've been selling their e-checks, but soon I will sell more fraud protection and other products that they offer.

**MS:** What interests you the most about this industry?

**TS:** The systems that make the business of selling work and the systems that make transactions safer. The entire processing industry fascinates me. Those nickels I get when someone says "charge it" blow my mind!

**MS:** If you could change something about the credit card processing world, what would it be?

**TS:** I would hold ISOs responsible when they run off my

merchants ... Nothing is worse than losing a merchant over poor customer service or bad risk handling of good merchants.

**MS:** What is the biggest mistake you've made in this business?

**TS:** Sometimes I've had really poor judgment about where I put my advertising dollars. I try things to get more deals that never work all the time. It's expensive!

**MS:** Describe a typical day in your life.

**TS:** I'll give you two days because I run on two speeds: fast and idle.

During the summer, I tend to be idle and enjoy life. I work a couple of days a week from noon to 5:00 p.m. And I monitor my phone messages and e-mail periodically the rest of the time.

I'm pretty mobile, and I tend to pack up my business and bring it with me while traveling or running from hurricanes. During the winter I pull 36-hour workdays, six days a week, often making up for all the summer-time fun.

However, in 2005 I'll have a more regular schedule because I've gotten the playing out of my system and now I have "business building" in me. Finally.


**MS:** What goals do you have in this industry?

**TS:** To build a sales organization that will be an application-generating machine. I've already started putting this plan into action.

**MS:** Where do you see yourself in one, five, 10 and 15 years from now?

**TS:** In one year from now, I hope to have all the systems in place that will have applications "steamrolling" into my office. Then I'll be able to focus on creating contacts that will allow more applications to flow.

After that, I plan to create more successful businesses. My goal is 10 successful businesses. I define successful as "profitable and able to function without me." I have a couple of hobbies that have big business potential now.

Thanks, Todd. You are definitely one of a kind, and I mean that only in a good way. Thanks for giving us a glimpse into the inner workings of "Tazman." 

*Matthew Swinnerton of Merchant Services Direct has sold credit card processing solutions for the last seven-plus years as an independent agent. To find out more about Merchant Services Direct, visit [www.msdirect.net](http://www.msdirect.net), e-mail Matthew at [matt@msdirect.net](mailto:matt@msdirect.net) or call him at 512-255-9791.*

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# Paying the Piper on a Mobile Device

By David Talach

VeriFone Inc.

**T**here's currently a buzz in the payment processing industry about the possibility of using mobile phones as payment terminals. While the concept sounds logical, practical implementations often fall short of real-world expectations.

Without a doubt, demand will grow for mobile payment systems in order to meet consumers' desires for more convenient payment options and merchants' needs for more timely and secure payment processing.

There are hundreds of thousands of merchants who are suited to using mobile payment devices including in-home services, home delivery, taxi and other car services, and outdoor venues such as stadiums and flea markets, to name a few. This represents a significant new market opportunity for you as ISOs and merchant level salespeo-

ple (MLSs) to begin exploring mobile payment options.

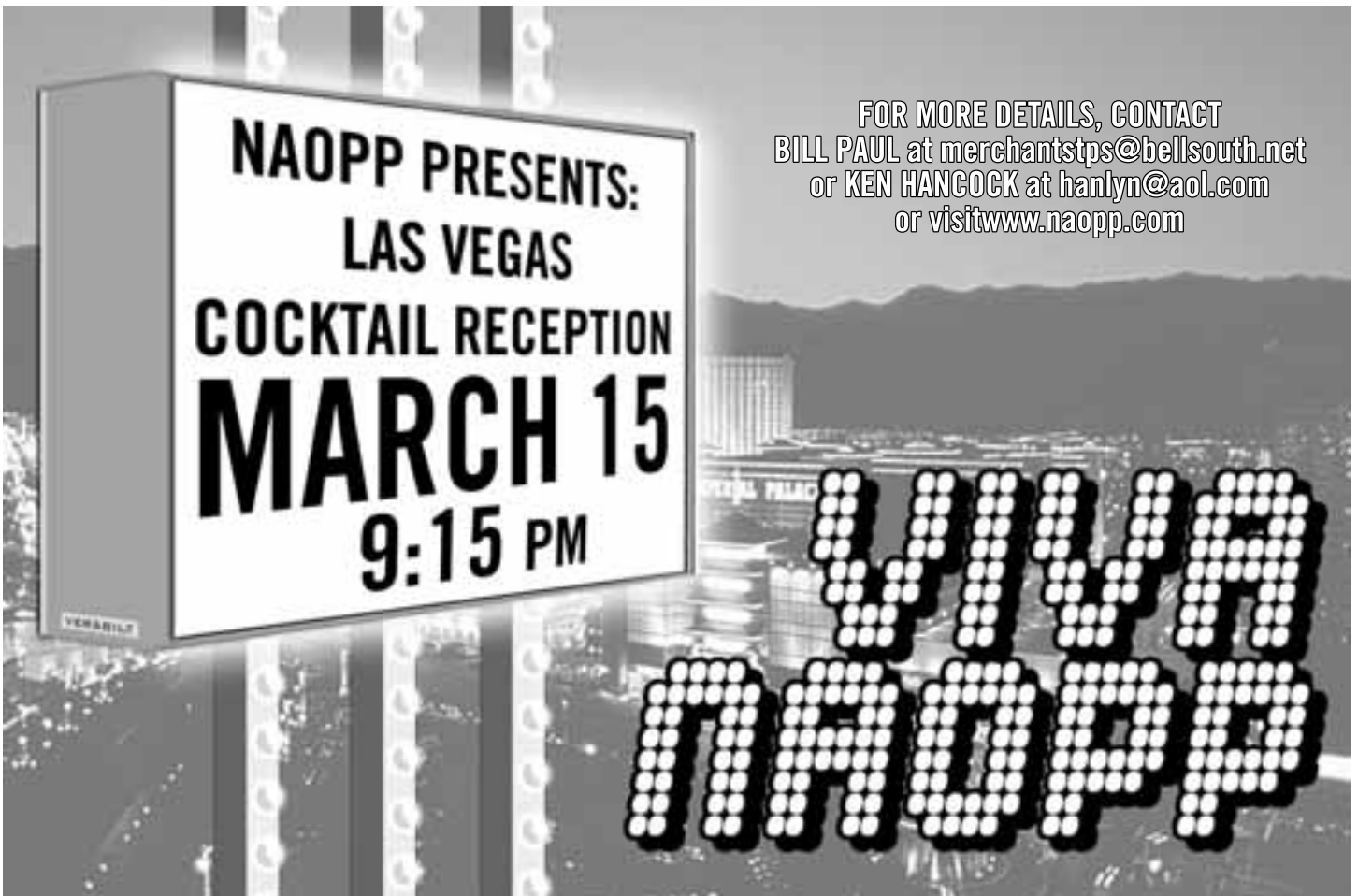
Although the mobile phone is now ubiquitous as a mobile communications device, it falls short as a robust and trusted payment device. In limited situations, it might prove adequate. But it will fall short in circumstances that require a full function, secure and supportable terminal. But then again, who doesn't have these needs when processing payments?

A key selling point of using a mobile phone as a payment terminal is that the solution is less costly and more convenient while also being "multi-talented."

Let's tackle the cost angle first. The theory exists that economies of scale with mass market devices should undercut more conventional payment devices.

But that claim evaporates quickly when you factor in the costs of either obtaining specially adapted mobile phones that are not mass market devices, or supplementing everyday phones with add-on card readers and printers, which are awkward and inconvenient.

To date, many manufacturers have priced traditional





wireless payment terminal solutions fairly high, but be assured that as volumes increase, prices will decrease, so lower priced equipment will not likely be the deciding factor for mobile merchants in the future.

Other arguments in favor of using mobile phones as payment devices include size and convenience. But unless you plan to operate without an add-on printer, you'll have to lug around multiple devices, which is not very convenient.

If merchants need to carry a separate printer along for the ride, they will have to juggle two devices in order to process card payments, not to mention in some cases physically connecting a peripheral as they go from door to door.

The above is the same type of story many in the industry have touted about using PDAs: Attach a card reader, and you've got a payment terminal. A simplistic logic exists behind this solution; you already own a PDA, so why not buy another device and add it on?

But if I have to buy a specialized phone to get to that point, doesn't that detract from the original proposition?

It's even more complicated if merchants want the ability to accept debit cards, practically a requirement in this day and age. But in addition to a phone and printer, merchants must also carry around a secure PIN pad. So now they're juggling three devices. How practical is that?

Another promise of mobile phone- and PDA-based POS devices is one of "convergence." I can get e-mail, short message service (SMS), instant messaging (IM), HTML, public switched telephone network (PSTN) and POS transactions all on one device.

Cool! Except for one problem. Most merchants don't know or don't care what most of those acronyms stand for and aren't likely to use or pay for these capabilities.

True wireless payment terminals make much more sense for general mobile use. VeriFone Inc. recently introduced the V\* 610, which represents a new generation of wireless terminal that delivers blazing performance, high-end functionality and exceptional ease of use in a sleek, compact design.

The product provides a secure payment processing environment with advanced hardware tamper-detection and



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response, PIN-entry device (PED) security approval, and 128-bit secure sockets layer (SSL) encryption for Internet protocol-(IP) based transaction processing and application downloading.

The device is agnostic with regard to telecom standards and can support both code division multiple access (CDMA) and general packet radio service (GPRS) networking technologies, giving merchants access to most carriers in North America.

It also incorporates a dial-up modem so merchants can plug it into landlines where needed.

This type of solution is smaller than previous generation devices, yet still features an ATM-style interface and includes an integrated printer. In essence, it extends the countertop payment model to wherever consumers are, whether shopping at open markets or buying home-delivered products and services.

As you look at mobile phone vs. integrated terminal options, consider one last thing: processor support. So far acquirers have been shy to offer Class-A certification support to hybrid, low-security mobile phone schemes.

Think about the cost of infrastructure and support that's in place for traditional payment terminals, and then consider the fact that nothing comparable exists to support mobile phone- or PDA-based payment devices.

How do you update the device? How do you keep the merchant from downloading other applications onto the device that might have an impact on the payment application?

Does your support organization need to know the operational user interface and functionality differences between 50 different models of mobile phone? How long will a particular phone remain in production?

While the mobile phone might prove adequate in limited, niche payment applications, for the most part it's an ill-equipped solution being force-fit into a function for which its designers never intended.

The new generation of true payment solutions for mobile, wireless environments is a more natural fit than a mobile phone when it comes to payment acceptance.

---

*David Talach is VeriFone's Global Product Manager of Wireless and Portables. He plays a key role in analyzing wireless industry trends and defining, designing and delivering wireless products to meet merchants' current and emerging requirements. E-mail him at [david\\_talach@verifone.com](mailto:david_talach@verifone.com).*

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# Education

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**W**e've all heard the adage, "Laughter is the best medicine." No matter what your business, taking time out to smile is sometimes the smartest solution to a problem. Even in the highly competitive and extremely stressful bankcard business, you can find humor.

I've wondered how many merchant level salespeople (MLSs) are fortunate enough to have a good chuckle during their busy days, whether working out in the field or in front of a computer screen.



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I know we all take our work seriously, but I wanted to provide the opportunity for everyone to sit back and laugh at some funny stories.

We all have them, so I recently posted the following on The Green Sheet's MLS Forum on GS Online:

*"As we go through the daily challenges of the bankcard business, plenty of things happen to us, some serious, some not so serious. I'd like to hear about the stuff that makes you laugh."*

*"We all need a little levity, and what better way than to share amusing sales stories with fellow hardworking MLSs? My next column will highlight your anecdotes as well of some of my more humorous experiences. Let's all take time out to laugh!"*

As I suspected, great humor exists in our industry. Here's just a sampling:

"We have a merchant that is a funeral home, and one of our reps was trying to contact the merchant. Well our rep called and called but always got the answering machine. So when the merchant finally picked up the phone, the rep stated, 'It's finally nice to talk to a live person.' Sarcasm is a great ice breaker. [The] merchant thought it was pretty funny."

- sales@spectrumadvantage.com

"Compliments of Charlie Ryan when we were working at BA Merchant Services: A preacher calls in and says that he needs a merchant account for a Web site. Charlie asks him, 'What is the product going to be?'

"The preacher tells him that he is going to sell 'thoughts.'

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**"[I] had a merchant that called into tech support because his terminal wouldn't work. The rep said, 'Oh, the notes say your terminal and account are frozen; you need to call your ISO's risk department.' He then called us, and said he didn't know how his terminal could be frozen, it was at least 70 degrees in his store!"**

— bankcardgirl

Charlie tried to let him down easy, but the preacher came back with, 'But these are really good thoughts!'"  
— desdinova

"We had a merchant call our office a few days ago wanting to set up an account. Turns out he owns a limo service company. He had installed hidden cameras in the backs of all his limos, and he wanted to sell DVDs of what the hidden cameras caught going on. In his words, 'There [is] some crazy stuff that happens back there.' We declined." — utah997

"I was standing at a Graybar counter waiting for the guy to go get me 12 phone cables for all the terminals I have been selling lately, when I accidentally read the classifieds. The ad under sales said verbatim, 'Our average sales rep makes \$7,000 per week.'

"I literally laughed out loud. I did not know who it was, but I told the counter guy I was in the wrong business while I dialed the number. 'Hi, this is E ... with Vericomm, I'll call you right back. For a nine-minute recording, dial XXX.' He did not call right back. I am sure you know the rest of the story." — bankcardrep1

"We received a call from our processor, and they informed us that someone had set up a fraudulent account and they needed more information on it. Apparently this guy had hit numerous processors and had stolen quite a bit of money.

"When we looked into it, it turned out that this merchant had been referring friends to us and collecting a \$50 referral fee on each one. So this guy was not the brightest criminal in the book.

"Our processor coordinated things with the Secret Service and the Miami police [department]. They asked us to send another terminal when the merchant referred another account to us. So the next day, when we got an application in from the merchant, we immediately contacted the Secret Service and our processor.

"They asked us to ship the package directly to him, and just give them the tracking number so they could intercept it at the Fed Ex station. We asked the girl who did our shipping at the time to send it out.

"The next day the Miami PD and the Secret Service set up their sting. They sent out an agent dressed as a Fed Ex driver with the package and then got a few officers to surround the house. The problem was that the girl who shipped the package put the wrong address on it and transposed the first two digits. So instead of it going to say, '12 Apple Street,' it went to '21 Apple Street,' which turned out was across the street.

"Now could you imagine the merchant looking out across the street and watching this go down? Apparently when the agent knocked on the door, he was directed back across the street.

"The police and agents then tried to move the sting back across the street with the fraudulent merchant watching. The merchant immediately ran out the back door and called our office.

"It was a five-minute call with him all out of breath

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swearing and threatening us if we set him up. Pretty stupid on our part, huh? Wait until you hear what the merchant did: He went down to Fed Ex to pick up the package the next day! A Secret Service agent was there to greet him." – ccwarehouse

"We set up a merchant several years ago (high risk) for a merchant account so deceased individuals could contact their loved ones. The merchant is STILL PROCESSING and swears to this day that if I were to use his services my deceased relatives could contact me via phone if they so desired! Needless to say, I have yet to take him up on the offer." – cvcarrero

"[I] had a merchant that called into tech support because his terminal wouldn't work. The rep said, 'Oh, the notes say your terminal and account are frozen; you need to call your ISO's risk department.'

"He then called us, and said he didn't know how his terminal could be frozen, it was at least 70 degrees in his store!" – bankcardgirl

So what's the punch line to all these stories? It's simple; some are funny and others you can actually garner value from. I have gained insight and learned invaluable lessons through my own funny experiences.

One of my favorite bankcard stories occurred many years ago. For the first time in my career, I was faced with a processing partner that didn't want to pay me my residual income. The threatened residual was more than \$120,000 per month.

I panicked. I was quite young, and that was a lot of money. I hired the best attorney in Atlanta where this processor was located.

A bit scared and accompanied by my brother, I met with the attorney on the morning of the arbitration meeting. It was an experience. His office was in a 100-year-old building, complete with a portrait of Gen. Robert E. Lee.

This quiet, quintessential old Southern lawyer was the complete opposite of the two young East Coast boys sitting across from him, trying desperately to explain how this big corporation threatened their entire livelihood.

Not saying much, he reviewed the case briefly. We didn't know what to think. We headed to the processor's attorneys' office and within 10 minutes they presented us with an offer, a final offer. It was insulting.

We left to confer with our attorney who quietly listened to us as we voiced our outrage and anger at the offensive offer. He took a moment and then gave us his advice. I can still hear the words rolling off his tongue in a slow, Southern drawl, "The problem with rolling in the mud with pigs is that ... pigs like rolling in the mud," he said.

My brother and I looked at each other, stunned. What was he saying? He explained that this company likes to fight. Yes the offer was bad, but we should take it. It's sometimes better to walk away clean. He was right. Just because you're right doesn't mean it's the best way to go.

Rolling in the mud could take years and cost a whole lot of money. Better to cut your losses, move on and become more productive. So from that day on, whenever we're faced with a similar situation, we always recall the words of that astute Southern lawyer, and we smile.

I learned another valuable lesson years ago while looking for a new processor. I was being wooed by a company that promised world class customer service, which my merchants would love.

Before making a decision, I flew out to the company's offices in California. I was very impressed as I walked into a gorgeous reception area. I toured the facility and continued to be impressed with the spectacular offices and executive suites. Every area of the building was amazing.



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Mark E., Houston, TX  
(Over 10 years experience)

Make 2005 *your* best year ever, by joining USMS. We'll show you how to knock out the competition.

Sincerely,  
*Stu Rosenbaum*  
CEO, US Merchant Systems, Inc,

PS. Even if you weren't around in the good old days, if you have an intense burning desire to succeed-by providing this kind of exclusive service... and earning more than you ever have, call Jessica anyway. 800-655-8767, ext. 262.

PPS. Here's what another of our agents recently said about our new exclusive products and services:

"USMS is the best thing that's happened to me in 8 years in this business. I made more money in the last 2 weeks (since offering the new services) than I have in my best month, ever!"

Ernest P., Austin, TX

I then asked to visit the customer service center, expecting it to be just as impressive. My tour guide walked to the back of the offices and opened a door into a smaller office. Inside was one young woman pulling voice mails off of an answering service.

I had to laugh. I said, "Thank you. I've seen enough. The only thing I would like is the number of your interior designer."

I'm sure you won't be surprised to hear that this beautifully decorated California company is no longer in business. I remember thinking how funny it was that the company had spent all that money on its decor and apparently none on the resources that really counted.

The punch line: Check things out before buying into the promise. Go see it for yourself.


I hope you enjoyed reading these anecdotes. Not only do I hope that they bring a smile to your face, but I hope that if you're ever in a similar situation, you pause to think before taking action. And whatever you choose to do, why not do it with a little bit of humor!

One of my next columns will highlight the Electronic Transactions Association (ETA). I was recently elected to ETA's Board of Directors, and I plan to report back on how my first ETA board meeting went, what ETA is working on and how it affects MLSs.

It promises to be a very interesting column. As always, keep sending me your comments on any issue to [streetSMARTS@totalmerchantservices.com](mailto:streetSMARTS@totalmerchantservices.com). Your opinions are always welcome.

**"The human race has one really effective weapon, and that is laughter."**

- Mark Twain

See you next time where the rubber meets the road. 

*Ed Freedman is founder and President/CEO of Total Merchant Services, one of the fastest-growing credit card merchant account acquirers in the nation. Freedman is the driving force behind all business development activity as well as the execution of Total Merchant Services' marketing plan, including recruiting and training independent sales offices and establishing strategic alliance partnerships with leading vendors, so that Total Merchant Services can provide its customers with the highest quality and most reliable services available.*

*To learn more about Total Merchant Services, visit the Web site at [www.totalmerchantservices.com](http://www.totalmerchantservices.com). To learn more about partnering with Total Merchant Services, visit [www.upfrontandresiduals.com](http://www.upfrontandresiduals.com) or e-mail Freedman at [ed@totalmerchantservices.com](mailto:ed@totalmerchantservices.com).*

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## Education (continued)

# The Evolution of Internet Payment Gateway Solutions

By Peter Scharnell

*Electronic Exchange Systems*

**M**any merchants process their transactions over the Internet using a payment gateway. As an ISO or merchant level salesperson (MLS), it's important to understand exactly how this process works and to become familiar with all of the features available to merchants using this type of solution.

When processing a typical transaction via the Internet, the gateway collects a consumer's transaction information with a form that captures the necessary customer information (name, address, credit card number, etc.) from a merchant's secure Web site.

The customer's credit card information is encrypted using 40- or 128-bit Secure Sockets Layer (SSL) technology and is then sent to an Internet transaction server.

The server transmits the data through the authorization network to the appropriate card issuer's bank using a secure connection. When the authorization process is complete, the customer receives an approval or decline response, and the secure server stores the transaction.

On average, transactions take about three to five seconds. They are automatically settled each day and usually funded within two to three business days. Merchants can check the status of transactions or run reports on past activity by going to their individual gateway Web site. They simply log in to their own password-protected virtual terminal/administration site.

Merchants can also use the virtual terminal to enter payment information manually if customers prefer to provide their credit card or bank account information by phone, mail order or fax.

This is how a standard Internet transaction takes place; however, there are many great new features that you can help your merchants take advantage of to further enhance their business's payment acceptance.

### Shopping Cart Integration

Incorporating a shopping cart within a merchant's Web site is perhaps the most common way to utilize Internet-based payment processing. All of the major gateways support shopping cart software, so they integrate fairly easily with e-commerce solutions.

Merchants create a "virtual checkout" for customers shop-

ping on their Web sites. Since there are so many shopping carts to choose from, you might be a little confused in trying to determine which ones will work best for your merchants. Several of the better gateway providers will have a list of certified shopping carts or will have standardized one or more brands. Check with your processor or gateway provider to see which shopping carts they recommend.

### Batch Processing

Merchants can take advantage of the batch processing option to upload transactions en masse to the payment gateway. This is an ideal solution if they have an internal application that collects transactions, and they want to process them offline and in bulk.

Merchants use Microsoft Excel or another program to create a "flat file" of data that conforms to the batch processing format. Then they automatically transmit the file for processing. The transactions are usually processed immediately, and most gateway solutions provide reporting to notify merchants of the status of each transaction. Merchants can also automate batch processing by scheduling it to run at preset times.

Not all gateways provide batch processing, so it's important to check with your provider to ensure that it supports this feature.

### Recurring Billing

One of the most popular features that the majority of the gateway providers now offer is recurring billing. This feature allows administrators to set up scheduled payments and eliminates the need to re-enter the customer's credit card information each time a payment is due.

Membership dues, installment plans, subscription fees and charitable donations are all examples of services that merchants bill on a recurring basis.

Recurring billing features help eliminate the need for merchants to assume the risk of storing confidential payment data. This is extremely important for meeting compliance regulations for Visa's and MasterCard's security mandate. Once again, check with your provider to see about recurring billing availability.

### Internet Check Payment

Let's face it: Paying by check is still the most popular method of payment in the United States. Internet check payment solutions allow merchants to accept and process payments from personal and business checking accounts directly from their Web site or via their virtual terminal.



Accepting electronic checks allows merchants to expand their payment options while increasing their revenues. Internet check services replace the need for paper checks. Customers benefit from an option that is as secure and as easy to use as a traditional paper check.

The best online check processing providers take advantage of fraud scrubbing through both negative and positive database searches as well as the address verification system (AVS). Check with your provider to see what check processing capabilities it offers.

### **Retail POS Transactions**

Another popular feature of Internet gateways is the ability to support card present credit card transactions, PIN-based debit transactions and check conversion at retail locations.

By processing retail POS transactions, merchants take advantage of reduced card present merchant account transaction fees using a virtual terminal, an economical credit card swipe reader and a PIN pad for accepting debit transactions. It's important to note that you need to check with your processor to ensure that your network supports Internet protocol (IP)-based PIN debit.

Merchants can also begin to process check services over the Internet by attaching a paper check MICR reader to a personal computer. Check with your processor or gateway provider to see if its solution will support retail POS features.

### **Level-III Processing**

Businesses that sell to other businesses, large corporate clients and the government have specific processing needs and requirements. Some Internet-based gateways now provide level-III processing programs that allow you to address the needs of these large corporate and government clients.

Level III line-item detail provides more specific purchase information such as item description, quantity, price, freight amount and other specific details. Visa and MasterCard have specific interchange rates that will significantly reduce the transaction costs by an average of about 30%.

Merchants that process level-III data with their transactions will realize considerable savings by always receiving the best available processing rate. Not all gateways provide level-III processing, so it's important to check with your processor to identify the best solutions for this market.

### **Fraud Detection and Prevention**

One of the biggest concerns for Internet card-not-present

transactions is fraudulent activity. We've all seen the news reports of identity theft and credit card fraud. Perhaps the most important new features that gateway providers are adding revolve around fraud detection and prevention.

The more sophisticated payment gateways all have fraud-detection features available. In addition to the standard AVS and card verification value (CVV2) features, some gateways offer rules-based fraud detection components that provide Internet merchants with filters and tools to identify, administer and prevent fraudulent transactions.

Merchants now have the ability to customize fraud detection filters to match their specific business needs and to control how they handle potentially fraudulent transactions. With several of the more advanced gateways, they even have the ability to hold the transaction for manual review.

### **Cardholder Authentication**

Cardholder authentication programs are in place to reduce chargeback fees for Internet merchants while also reducing the potential for fraud. Gateway providers are rapidly implementing features that support the Verified by Visa and MasterCard SecureCode programs (3-D Secure standard).

The 3-D Secure component will validate the identity of registered cardholders during Web-based transactions by requiring a unique PIN at checkout. By implementing this additional layer of authentication, merchants protect themselves from the costs associated with fraudulent and disputed transactions.

Check to ensure that the gateway solution you provide meets the Visa and MasterCard compliance regulations.

Most processors offer several gateway solutions to choose from, and some will even provide integration and implementation services. This will allow you to approach larger and more complex customers who need an integrated solution with their existing POS software or hardware.

Whether you set up a small, Web-based merchant or a large business with many card-not-present processing needs, it's important to understand the options that each payment gateway provider has available and to make the best selections for your customers. ■

*Peter Scharnell is Vice President of Marketing for Electronic Exchange Systems (EXS), a national provider of merchant processing solutions. Founded in 1991, EXS offers ISO partner programs, innovative pricing, a complete product line, monthly phone/Web training, integration services and, most of all, credibility. For more information, visit EXS' Web site at [www.exsprocessing.com](http://www.exsprocessing.com), or e-mail Peter at [peter.scharnell@exsprocessing.com](mailto:peter.scharnell@exsprocessing.com). EXS is a registered ISO/MSP for HSBC Bank USA, National Association.*

# Education (continued)

## Marketing 101

# The Most Brilliant Marketing Column Ever Written

By Sam Neuman

With Nancy Drexler, Cynergy Data

**D**id the title of this article get your attention? Good. This month, I will talk about ways to grab your target's attention using several different types of marketing. I'll tell you how to write press releases that become front-page news, design ads that make the reader pick up the phone right away, and send direct mail that stays out of the circular file.

The first rule: No matter what message you communicate or how you say it, get right to the point and put the benefits first. With that in mind, let's look at how you can create public relations (PR) campaigns that soar instead of snore, and save your company advertising money in the process.

### No News Is Very Bad News

In this industry, effective PR is incredibly important, not only because it has a wide impact or because people believe what they read in newspapers and magazines more than what they see in ads.

And definitely not only because those framed clippings from "The New York Times" match your office décor perfectly.

PR is crucial to financial professionals because it's free. In an industry driven by ROI and the bottom line, PR is a no-brainer. The problem is that many companies send out press releases that are so boring, so formulaic, and so clearly an attempt to get free publicity, that reading every line of your spam e-mail would be more enlightening.

Free PR is no good if no one cares about your stories, and it's even worse if the press see your name and start shooting for the wastebasket.

Browsing financial headlines on "PRNewswire.com" (a Web site that publishes press releases and news from

around the world) for a few hours is a great way to fight bouts of insomnia, but if you're looking for actual news, it can be a little depressing.

Too often you will see headlines such as "Company Announces Earnings" or "Senior Vice President Gets Promoted to Executive Vice President" or "Company Wins Account."

The information is certainly important, but it's often presented so dryly it's likely to get overlooked. Or if it does get published, it will probably be buried on page 194 or in the middle of section G-8.

Spice up your releases with headlines that make people want to read. Did you recently sign a major merchant from an industry that doesn't typically accept credit cards? There's a trend piece in the works.

And that Senior VP, excuse me, Executive VP, there must be something interesting about him, right?

Why not lead with the fact that he's a Gulf War veteran or a nationally ranked Texas Hold'em player?

That's a much more certain way to get your piece read.

Here's the key: Write press releases that you would actually want to read, and you'll have a much greater chance of seeing your company make headline news.

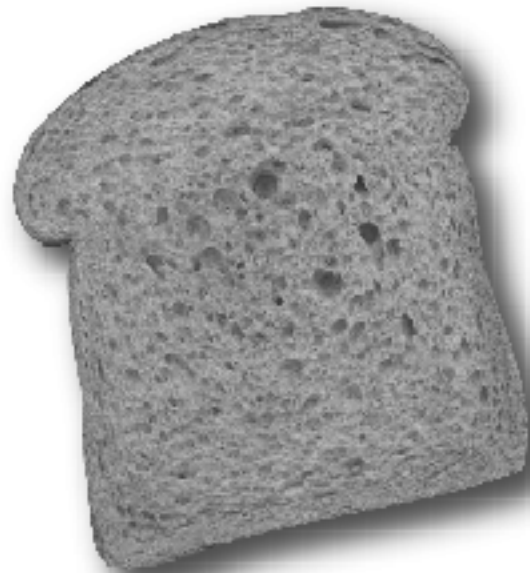
### Ads That Get Attention and Keep It

People in advertising talk a lot about image advertising vs. direct response advertising. The intent of the former is to reinforce a company or product's name and brand in order to build customer awareness. The latter promotes action, calling for a customer to call a number, fill out a form or buy a product.

A Macy's ad that says it has the best clothes at the best value is an image ad; an ad that tells you women's shoes



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## Education

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are 40% off at Macy's this weekend is a direct response ad. (And an ad that will have me running to the nearest Macy's, but that's neither here nor there.)

Whether you work with brand or direct response advertising, advertising is expensive, and thus is expected to produce results. This seems obvious, but sometimes we creative types can get carried away with making ads that are beautiful, innovative, sexy or outrageous. These are all great things, but not necessarily the things that will increase your company's bottom line.

When a potential customer looks at your ad, you don't want their only reaction to be "Wow, what a cool ad," followed by a page turn. You want them to pick up the phone, go to your Web site or send an e-mail right away to learn more about whatever the ad is selling.

Obviously, we want ads that stand out and get noticed, but sometimes we run the risk of paying too much attention to how cool our ads look and completely ignoring the fact that they're not doing their job: selling products and services.

For example, the advertising community gives out Clio Awards once a year to the best ads in print, television, billboards, you name it. The winning ads are inevitably hilarious, touching or innovative. They also don't necessarily sell products.

A study by "Advertising Age," a publication for advertising, marketing and media professionals, found that more than one-third of the agencies that win Clio Awards are fired by their clients within the next 18 months.

The ads that win might be wonderful, but they don't necessarily sell products. They're great for getting people's attention, but not for getting them to actually do anything.

So keep the creative ideas coming. Write and design ads that generate buzz and get people talking. But never lose sight of the ultimate goal of the ad.

A great design or a catchy slogan will get people looking, but then your copy and your images need to keep them looking, and, more importantly, reading. The product has to be the hero, not the copywriter or the art director.

### Return to Sender:

#### How to Rethink Your Direct Mail Campaigns

---

When you're creating a direct mail campaign, you have a major obstacle to overcome. For many people, direct mail is always an unwanted annoyance. To make your message stand out, lead with your strongest selling point.

Put yourself in your target's shoes, and give your direct mail piece a casual glance. What do you see?

A big corporate logo? It's going in the trash. Six paragraphs of 10-point text? Trash it. An offer that's easy to refuse or a promise that's hard to believe? Trash away.

The first thing a prospect should see when he picks up your direct mail is a benefit. Your campaign should offer him, within five seconds of glancing at it, an enticement to read further by promising a solution to a problem that he has. His problem could be that he provides bad customer service, uses malfunctioning equipment or is forced to turn away customers because he doesn't accept every method of payment.

There's also a universal problem that people in every industry have: They're not rich enough. You can solve this problem by showing them how to make money, or how to keep more of it by working with your company instead of the competition.

Distill your benefit into a short, catchy headline and make it the visual emphasis of the piece. Then, add a captivating image that will surely catch the prospect's eye if the headline should fail.

Save your more involved, explanatory text for the back, but be cautioned that less is definitely more. You have less than a minute to make your prospect an offer he can't refuse. If he's intrigued, he'll make the call or visit your Web site to get more information.

Be quick, punchy and concise and you will get his attention. Lead the reader easily through product benefits to a ready solution, and you'll get results.

No matter what marketing channels you use, remember these over-arching rules for getting your audience's attention. Keep it simple, spell it out quickly, and put a benefit or solution right at the top of your marketing piece, and you'll see major results. I hope you paid attention. ■

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*Sam Neuman is the Communications Specialist and Nancy Drexler is the Marketing Director for Cynergy Data, a merchant acquirer that provides a wide array of electronic payment processing services while continually striving to develop new solutions that meet the needs of its agents and merchants. In addition to offering all forms of credit, debit, EBT and gift card processing, the company offers its ISOs free training, technology, marketing and guaranteed service levels. Founded in 1995 by Marcelo Paladini and John Martillo, Cynergy Data strives to be a new kind of acquirer with a unique mission: to constantly explore, understand and develop the products its ISOs and merchants need to be successful, and to back it up with honest, reliable and supportive service.*



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## Education (continued)

### Reserve Accounts: It's a Matter of Prudence

By David H. Press

*Integrity Bankcard Consultants Inc.*

**A**s an ISO, you should set up reserve accounts for your merchants, especially the high-risk ones. At Integrity Bankcard Consultants (IBC), we make portfolio risk assessments on behalf of our ISOs, and we've observed that in most cases they have set up adequate reserves for their high-risk merchants.

However, we've also seen numerous situations in which the ISO either holds excessive reserves on high-risk merchants or holds no reserves at all.

In some cases, it's counterproductive to hold reserves beyond what is prudent and necessary because you might increase the processing risk by restricting the merchant's cash flow.

This can lead to fulfillment problems such as failing to issue returns to cardholders in a timely matter or inadequately staffing your customer service department.

Don't put yourself in the position where you continue to hold back the same percentage of the merchant's processing volume month after month without reviewing how much you have in reserve compared to your actual risk and exposure.

At IBC, we've seen a countless number of ISOs' good and highly profitable merchants go elsewhere simply because the amount of reserves the ISOs held was unreasonable.

Unfortunately, some of our merchant clients, which retain us to develop processes and procedures to eliminate their chargeback problems, have had some very bad experiences with ISOs and reserve accounts.

For instance, some ISOs don't have the funds available to pay the merchant the amount held in the reserve account as promised or pursuant to the merchant processing agreement.

Some have used the merchant's reserve to fund the ISO's reserve requirements with its processor or member bank. Other ISOs have created bogus or inflated fees/fines to justify not returning the funds in the merchant's reserve account.

The merchant processing agreement should provide reserve account language similar to the following:

The ISO "will establish and maintain a non-interest bearing account ('reserve account') in the name of either bank or merchant at a federally insured financial institution, with sums provided by merchant that are sufficient to satisfy merchant's current or future obligations as determined by ... "

Rather than hold the merchant's reserve funds, set up these accounts as individual accounts in the merchant's name.

It's important that merchants establish "ownership" of these funds and believe that they will get their money after the processing relationship ends.

Otherwise when their processing agreement is ending,

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**Be creative and work as a partner with merchants; these efforts go a long way in creating profitable and secure relationships with them.**

**Having policies in place where you do not release funds to new, high-risk merchants for the first deposit and use extended hold period days is a good, practical idea.**

merchants might run fraudulent transactions or fail to fulfill in order to get "their money" back.

You should maintain the reserve account for a minimum number of days after the termination date and for any reasonable period (i.e. two months with no chargebacks) or for such time for which cardholder disputes may remain valid.

Consider being reasonable and willing to gradually release funds to the merchant based on the chargeback experience after termination vs. the amount of funds being held.

Remember this, too. There are alternatives to holding reserve accounts. While they might be more difficult and time consuming to set up, they might prove easier to administer in your day-to-day operations.

Consider the following alternatives to reserve accounts:

- Irrevocable letters of credit
- Lengthening settlement timeframes (extended hold period)
- Mandate acceptance criteria (i.e. fraud prevention tools, AVS and CVV2/CVC2, Verified by Visa, MasterCard Secure Code)
- Re-work merchants' fulfillment process or procedures
- Require merchants to provide proof of delivery before payment
- Third party or guarantor indemnity
- Special administrative reserve accounts at member bank
- Power of personal indemnity
- Surety, capital retention agreements and insurance products
- Assignment of service or databases

ISOs too often automatically decide to hold back a certain percentage of the merchant's processing volume as a reserve when there are other and better ways to protect itself by transferring the risk of loss to a third party.

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Education

**Irrevocable letters of credit are a great way to protect your business and are underutilized by most ISOs and processors. ISOs that work with the member bank to develop a letter of credit format and process often find the letter of credit the easiest way to mitigate the merchant risk.**

Be creative and work as a partner with merchants; these efforts go a long way in creating profitable and secure relationships with them.

Having policies in place where you do not release funds to new, high-risk merchants for the first deposit and use extended hold period days is a good, practical idea.

Verifying these merchants' actual processing activity is a safeguard for merchants processing anything that you might determine to be inconsistent with the application or agreement.

Insurance (from a reputable carrier) can serve as an alternative to having a reserve account. In fact, most merchants would prefer to pay a higher discount rate to cover the premiums than to be required to create a large reserve.

You can cap the reserve for the deductible amount and be fully protected. You can even make the insurance company be the bad guy when asking the merchant to do something to reduce the overall risk.

Irrevocable letters of credit are a great way to protect your business and are underutilized by most ISOs and processors. ISOs that work with the member bank to develop a letter of credit format and process often find the letter of credit the easiest way to mitigate the merchant risk.

They are more effective than simply getting a "wealthy" personal guarantor to sign and act as another way to transfer the processing risk to a third party. ■

*David H. Press is principal and President of Integrity Bankcard Consultants Inc. Call him at 630-637-4010, e-mail him at [dhp@integritybankcard.net](mailto:dhp@integritybankcard.net) or visit [www.integritybankcard.net](http://www.integritybankcard.net).*

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# Stop Me if You've Heard This One: Merchants Sue Card Company

**I**s it déjà vu all over again? A group of merchants is preparing a class action antitrust suit against a credit card company for pressuring merchants into accepting all the card products it offers, despite the higher fees it charges for some transactions. While the plot sounds familiar, this time the characters have changed.

Now that the Visa/MasterCard antitrust matter is settled (see "Supreme Court Decides Against Visa, MasterCard in Six-year Antitrust Suit," The Green Sheet, Oct. 25, 2004, issue 04:10:02), and former plaintiffs American Express Co. (AmEx) and Discover Financial Services celebrate victories, the tables have turned on AmEx. The company is now embroiled in a law-

suit that has the potential to include several million U.S. merchants if a class action is certified. Attorneys representing merchants across the country say that the tying agreements AmEx imposes on merchants to accept all of its products are illegal, as are the arbitration clauses it enforces.

The suit against AmEx was originally filed in 2003 in U.S. District Court, Southern District of New York. However, on Dec. 30, 2004, plaintiffs' attorneys added two more defendants to the complaint: Citigroup Inc. and MBNA Corp., which both recently announced issuing agreements with AmEx.

Now that AmEx is able to link its brand with such large commercial banks as Citi and MBNA, two of the

three largest issuing banks in the country, the question of interchange fees becomes a huge factor for merchants.

According to Gary B. Friedman, lead attorney for the plaintiffs and a partner with the law firm Friedman & Shube of New York City, the higher interchange fees merchants must pay to accept AmEx-branded revolving credit cards from their customers are harmful to their businesses. With AmEx's well-publicized entry into the credit card business, in contrast with its more traditional charge card products, merchants may end up paying higher fees for cards that AmEx requires them to accept if they want to accept any at all.

As a result, Friedman contends, merchants could lose a considerable portion of their incomes if transactions including corporate travel purchases, an area AmEx has long



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focused on, are eliminated. The complaint cites AmEx's "tying" policy, through which it imposes high discount fees on credit card transactions; merchants accepting one AmEx card are required to accept all of them. Friedman contends the tying policies are anti-competitive and illegal.

Traditionally, AmEx has focused its charge card products on business travelers and affluent individuals. According to the complaint, these markets are distinct from the market for revolving credit services. Because the company has built its brand on the perception of wealth associated with using its cards, it historically has charged higher merchant fees. Friedman said the higher processing fees, which can be as much as 40% more than other credit cards, are one way AmEx entices banks to issue cards carrying its brand.

AmEx's agreements with Citi and MBNA reflect its "push to enter the revolving card market," he said. "These branded cards carry higher fees, and merchants are distressed about the rates they're charged by American Express."

Along with going forward with the class action, he said they will also litigate the issue of the stringent arbitration clauses AmEx enforces against small merchants. According to Friedman, these clauses would bar small merchants, and only small merchants, from participating in class actions, even while AmEx's policies hit those businesses the hardest.

"Small merchants are subject to provisions in their agreements, which inhibit their ability to win disputes with the company," he said. "We are arguing that the class action waivers would effectively give AmEx a free pass to violate the antitrust laws as against small merchants. A court date is set for Feb. 16, 2005 and we expect resolution of all AmEx's defensive motions at or around that time."

AmEx does not comment on pending litigation. However, in a statement sent in response to inquiries from The Green Sheet, it said: "As a point of fact, unlike Visa/MasterCard, American Express does not have market power. Merchants are free to choose whether or not to accept American Express cards. Merchants accept the American Express card because of the value that card acceptance delivers to their businesses."

Friedman questions what will happen to Visa and MasterCard interchange rates if issuing banks decide to move portions of their portfolios to AmEx cards in order to collect the higher transaction fees. "Visa has already increased its merchant fees to keep banks from defecting to AmEx," he said. "It's an upward spiral that hurts merchants, and therefore, their customers." ■

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Where there's demand, there's a market, and many Internet businesses offer consumers the ability to buy, sell or trade unwanted gift cards. Consumers can buy "nearly new" cards on the popular auction site eBay (at press time, there were more than 300 items listed for gift cards).

One listing asked \$19.50 for two Best Buy gift cards totaling \$25. Another asked for \$380 for \$400 in Home Depot cards. eBay will not allow the sale of gift cards totaling more than \$500.

Some Web sites such as SwapAGift.com and CardAvenue.com enable consumers to not only buy or sell their cards but to also trade them for better ones (although it's all a matter of opinion), the Associated Press reported.

Both of these sites require users to register. On SwapAGift.com, for each gift card listed, the company charges a \$3.99 fee. It doesn't matter if the amount of the card is for \$25 or \$500, the fee is the same.

CardAvenue.com charges sellers 6.25% of the value of the card and a closing fee of \$0.50. Both sites use eBay's online payment service PayPal to fulfill transactions.

Whatever happens with the gift cards after the in-store purchase, retailers win all around because retail-issued gift cards are big business and getting bigger.

The National Retail Federation (NRF) estimated that consumers would spend about \$17.34 billion on gift cards in 2004, up \$100 million from the previous holiday. And despite whoever ends up redeeming the card in the store, most people will spend more than the card's original value.

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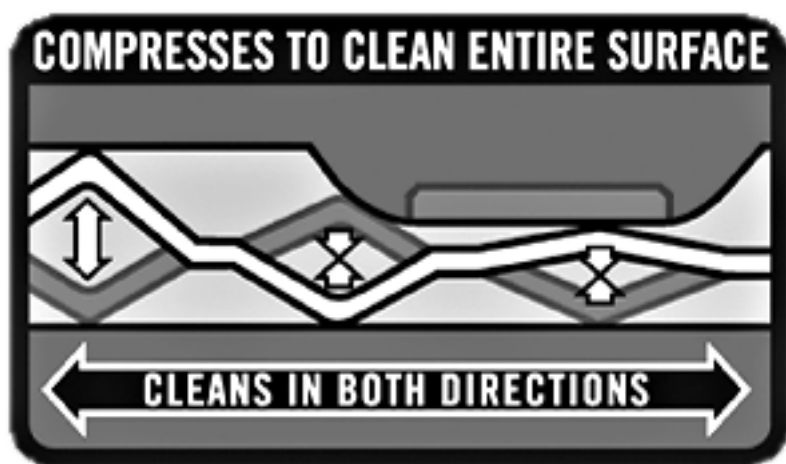


# NewProducts

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## Wow Them With the Waffle



Source: Waffletechnology



Enlarged to show texture.

### Product: Waffletechnology Cleaning Cards

Company: *US Paper Supply Inc.*

If you've ever offered to clean merchants' POS terminals as an approach to get in the door, here's a way to really impress them once you're inside. US Paper Supply has introduced its Waffletechnology cleaning cards, which the company says will outperform regular flat cleaning cards.

How? It's in the waffle. The fiber coated cards have flexible, raised cleaning platforms on both sides. The design allows complete access to all of the critical and hard-to-reach components within the POS equipment such as the leading and trailing edges of rounded magnetic heads and recessed sensors. And the cards clean from either direction.

You're probably no engineer, but as you slowly insert the card into the machine, lock eyes with the merchant and say this: "Do you see how the independent suspension design of the cards facilitates pressurized access to the recessed sensors of the bill acceptors?"

You'll not only show them you're serious about the bankcard business, but you'll leave them with a really clean and better functioning terminal. So why wouldn't they want to do business with you?

The cards come dipped in a solution of 99.9% isopropyl alcohol and hermetically sealed in individual envelopes.

US Paper Supply recommends using the cards not only on POS terminals, but anywhere plastic cards are swiped including ATMs, hotel door locks, pay at the pump stations, airline check-in kiosks and time/badge swiping devices.

### US Paper Supply Inc.

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**"In a perfect world, I see telemarketing shops pitching an online application to merchants over the phone, and at the same time, feet-on-the-street ISOs doing an online application through a Web-enabled PDA, having the merchant sign on screen with a stylus and doing a download within five to 10 minutes after submitting the application."**

- Michael Nardy  
CEO, EPI



# ELECTRONIC PAYMENTS

## Web Improves Merchant Account Management

**Product: bankcardAPP.net**

*Company: Electronic Payments Inc.*

**A**ttracted by the Web's real time and "always on" capabilities, more and more processors offer their ISO and merchant level salesperson (MLS) partners ways of doing business with their merchants using the Internet, from reporting and lead generation to merchant application submissions.

Electronic Payments Inc. (EPI), a payment and transaction processing company, recently released bankcardAPP.net, a secure, Web-based portal for ISOs/MLSs.

The bankcardAPP.net portal integrates with EPI's ISOInterface, an online ISO management center. It provides ISOs/MLSs with a sign-on screen merchant application that offers instant approval, programming and MID issuance.

The online application component of the portal offers a document- and picture-upload feature. Using the application, EPI can set up merchant accounts that are ready to process within 30 minutes.

The portal provides ISOs/MLSs with access to their merchant accounts. They can review transaction and batch data online or view merchants' contact information and digitized copies of their merchant applications.

The system also offers help with leads. It can locate a sales representative in the area for a merchant to talk to. If a merchant signs up and chooses to work with that rep, then that ISO/MLS is assigned the account (even after a sale) and services it and earns residuals on it.

"In a perfect world, I see telemarketing shops pitching an online application to merchants over the phone, and at the same time, feet-on-the-street ISOs doing an online application through a Web-enabled PDA, having the merchant sign on screen with a stylus and doing a download within five to 10 minutes after submitting the application," said EPI's Chief Executive Officer Michael Nardy.

"The early bird gets the proverbial bankcard worm, so to

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speak, eliminating the time between submission to approval to download and deployment is going to help ISOs increase their sales tremendously."

EPI can customize the system not only for ISOs, but also banks and associations.

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Company: Peppercoin Inc.

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First Data Merchant Services, Chase Merchant Services and Moneris Solutions are some of the acquirers working with Peppercoin.

Peppercoin 3.0's small-payment platform provides pay-as-you-go, prepaid, subscription and post-paid options, and merchants can experiment and change their offerings over time if needed.

For instance, vending machine operators and parking systems use Peppercoin's software, which enables them to accept credit and debit cards for payment.

The product supports digital, mobile and physical POS markets. Merchants can offer their products and services through different channels, and acquiring banks and payment processors can select one small-payment platform to address their different needs.

In addition, the suite is compliant with the card Associations' rules and regulations and meets the following data security requirements: Visa's Cardholder Information Security Program (CISP), MasterCard's Site Data Protection (SDP), American Express' Data Security Operating Policy (DSOP) and Discover's Information and Security and Compliance (DISC).

The solution will be available in Q2 2005. ■

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- Oprah Winfrey

## Becoming a Valuable Asset

*"I'm a people person."      "I'm a team player."*

**W**ho doesn't roll their eyes when they hear the phrases above? They are worn-out, overused expressions that conjure up images of a nervous job applicant in an ill-fitting suit responding to a potential employer's standard "Tell me about yourself" question.

However, they're also qualities vital to the success of any business. Without them, you can accomplish very little in business or in life for that matter. Every sale, presentation and lead generation requires a collaborative effort.

Your professional success directly relates to how valuable you are to the team with whom you work. Therefore, to be successful in business you need to be an asset to your team. Everyone wants to be on a winning team, and everyone wants to be on a team with people who can win. Therefore, in order to be a success, demonstrate your value to your company.

Even if you plan to change jobs, you still want to be an asset to your current co-workers, as your success on that team makes you more attractive to other companies. How do you make yourself invaluable? By becoming a team player.

### Put the Team First

As a team member, it's important to understand that what's best for the group comes before what's best for you as an individual. Your focus should be on the group's goal, rather than what's in it for you.

Therefore, don't be afraid to step back and let someone else shine. The most valuable team player is not necessarily the brightest star. More often than not, the person who works for the good of the team, rather than his own self-serving purposes, is the real team player.

### Check Your Ego at the Door

When you're part of a team, it's vital to develop a thick skin. Working as a team involves both giving and receiving criticism. Don't be offended by others' suggestions; remember, it's for the good of the team.

Also, don't read too much into others' actions. For instance, if you served as project manager or leader on the last project, and your boss asked someone else to lead on the next project, don't jump to the conclusion that you did something wrong or that you're being treated unfairly. Your co-workers are your teammates, not your competition. Ask them for support, and offer them encouragement when they need it.

### Be Flexible

The whole idea of working as a group is to share ideas and work collaboratively. This helps to make the most of each person's skills and maximizes the team's overall benefit.

Have you heard the phrase, "Too many cooks in the kitchen"? If there are too many leaders who believe their way is the only right way, the team will move in circles, rather than progress ahead. Valuable team members are open to change, and embrace the give-and-take nature of a team.

### Keep the Lines of Communication Open

When you're on a team, or in any relationship, success depends on how well people communicate with each other. A valuable team player tells others what's going on and asks others what's happening. Talk to your fellow colleagues. Be approachable. If there's a potential problem, address it and try to remedy it before it becomes a bigger issue.

### Make Connections With Others

"Team" is just another word for relationship. Valuable team members are enthusiastic, and their enthusiasm energizes co-workers. You will prove valuable to your colleagues, and your clients, if you can connect with them to foster trust, commitment and camaraderie. This faith and confidence helps build relationships.

### Keep Your Focus

All teams should have a clearly identified mission and goal and communicate it to all members. A clear mission assures that the group concentrates its efforts on the same cause. Keep the team's goal in focus and know what your responsibilities are to help reach that goal.

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easy, or what everyone else is doing. A good team player stays committed to the cause, especially when it's not the popular thing to do.

If you're on a winning team, others will perceive you as a winner. Who doesn't want that? Raw talent and education certainly add value, but to be an asset to your company, you also need to be selfless, flexible and communicative.

It's important to spend time educating yourself and fine tuning your sales skills. However, it's just as important to keep your team-playing and compromising skills sharp.

As a team member, you'll increase your value if you remain focused on the good of the team and use your skills to help work toward the united goal. ■

## When Plans Change

**E**ach of us would like to believe that we're flexible, accommodating and generally easygoing. However, let's be honest and admit that we all feel a little irritated, resistant or annoyed when our plans change because of something beyond our control.

No matter how much time you spend preparing and scheduling your workdays and travel arrangements, some aspects of life you simply cannot control. For example, factors such as bad weather, mass transit delays, client schedule changes, employee turnover and illness can make chaos of your well-laid plans, but there's little you can do to prevent these unforeseen circumstances.

While your first reaction might be irritation or even anger, instead take a step back and see what opportunities this unexpected turn of events could mean for you. Today's inconvenience might be a factor in tomorrow's successes. Below are a few tips to help transform unanticipated events into positive experiences.

### Face Change With a Positive Attitude

Don't assume all change is adverse. A cancelled flight might seem like bad news, but it could turn into an opportunity for success.

**Example:** Your flight is cancelled so you can't attend a presentation. The fact that someone else attends in your place seems like an inconvenience for both of you, but who knows? The replacement might secure some business that wouldn't otherwise have happened. Maybe he has more in common with the prospect, or he formed a

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**Electronic Retailing Association**

*Mid-Winter Conference & Trade Expo*

**Highlights:** The Electronic Retailing Association represents companies "that bring quality products and services directly to the world" on TV, radio and on the Internet. The Conference & Trade Expo brings them all together to learn about advertising, marketing, telemarketing, direct response, government regulations and broadcast programming. It's not too much of a stretch to see how transaction processing fits into this scheme; attending a conference like this might provide a new perspective and many new contacts. More than 600 people attended 2004's event and nearly 40 vendors are scheduled to participate in this year's expo.

**When:** Feb. 27 – March 1, 2005

**Where:** The Ritz-Carlton, South Beach, Miami

**Registration:** Visit [www.retailing.org](http://www.retailing.org)

**Electronic Transactions Association**

*Annual Meeting and Expo*

**Highlights:** The electronic payment processing industry's biggest event of the year is happening earlier than usual in 2005, but that won't diminish the excitement or opportunities for learning and networking in any way. Nearly 3,000 professionals from across the country and around the world will attend to learn about new trends, meet with peers and explore the latest in cutting-edge technology.

Presentations, seminars, break-out sessions, banquets and receptions are included; everyone from sales reps to CEOs will leave this event with pertinent and timely information, numerous business contacts and progressive ideas that they can put to work immediately. Dozens of vendors will exhibit in the Expo Hall, including The Green Sheet. Visit us at Booth #1630 just inside the entry doors and enter to win a "Greentastic Voyage" to Maui or South Africa.

**When:** March 15 – 17, 2005

**Where:** Mirage Hotel and Casino, Las Vegas

**Registration:** Visit [www.electran.org](http://www.electran.org)

personal relationship that helps grease the wheels for a sale. Who would have thought a flight cancellation or "weather in Detroit" would translate into more sales for your company?

**Be Willing to Change**

When life throws you a curve, remember to think in terms of the long run. Maybe at first it's inconvenient when a prospect cancels a meeting, but in the end, it might turn out to be a blessing.

**Example:** A prospect gets sick and cancels your meeting. Chances are if she met with you while feeling under the weather, she would have been distracted during your presentation.

Would you prefer to meet with her when she's focused on her splitting headache, or would you rather have her full attention in a couple of weeks? When she's healthy and rested, she'll more thoughtfully consider what you have to offer, which increases your likelihood of securing the sale.

**Seek Change**

When faced with a conflict or crisis, try to turn it into a positive opportunity. When an employee unexpectedly quits, it might seem like a predicament when actually it's a chance for a positive change.

**Example:** If an employee quits without warning, you're faced with an empty desk and no one to do his job. Your first instinct is to get that position filled as quickly as possible. But maybe this is a good time for change. Maybe this is the time to delegate and give a subordinate more responsibilities.

Or perhaps it's time to reorganize and change territories or job descriptions. Instead of panicking and hiring someone because you're under the gun, evaluate this opportunity to make a positive change.

When you think your day might turn into a nightmare because of an unexpected change in plans, relax. Just because it isn't progressing as scheduled, or events are out of your control, doesn't mean your day is doomed.

You never know what's around the corner. A change of plans could be the best thing that happens to you.

Good Selling!<sup>SM</sup>

Paul H. Green, Publisher

# How do I get quick access to someone who cares whether I make the sale or not?



EZ.

I turn to the people at EZCheck®. With EZCheck's personalized service and access to senior management, I have all the tools and support I need to effectively sell. EZCheck is a company run by sales people, for sales people. And, as an industry leader, they have all of the latest services in demand, including conversion, guarantee, verification and collection options.

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# Comstar Interactive

# Sales Contest



The Comstar gateway has successfully processed over \$60,000,000 of wireless credit card transactions in the first three quarters of 2004. We are poised to exceed \$100,000,000 in wireless transactions processed this year.

We want to thank you, our sales partners, for our success. We want you to share our excitement about the future of wireless POS transactions and our future sales successes with you as well.

Therefore, Comstar Interactive, the leading wireless point of sale gateway and transaction management solution for credit card processing is celebrating our success with a first class sales contest ...



**DETAILS.** Accumulate points for each Comstar product sold and/or activated on the Comstar Gateway. There will be fifty-two prizes awarded.

The point values:

Comstar Charge Anywhere Device	100 points
Lipman Nutit 3010/8000 Activation	25 points
Comstar V.I. Account	25 points
Battery Powered Printer	10 points

Points will be tallied each month and updates will be available from your processor/ISO.

**REGISTER.** Dealers and Resellers can register their MIS via Comstar account reps or at [www.comstarinteractive.com/corvettecontest.htm](http://www.comstarinteractive.com/corvettecontest.htm). Call 1-800-211-1256.

**CONTEST DATES.** Comstar starts at the conclusion of the 2004 mid year FTA meeting in Miami and concludes the last day before the start of the 2005 ETA annual meeting in Las Vegas.

**PRIZES AWARDED.** The prizes will be announced and awarded at the ETA Annual Meeting at the Comstar Booth on Day 2 of the show.



\*Must be a new prize valued at \$50,000 or more.



Must be a new prize valued at \$2,500 or more.



Adjusted for taxes. Must be \$100 or more.

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