

Hope is not a Strategy

Getting your ISO to the next Level



Getting your ISO to the next Level

- ▶ Getting to the next Level
 - *Retail vs. Wholesale*
- ▶ Industry Processing Costs
 - *Confessions of a Processor*
- ▶ Clearing and Processing
 - *Picking the best Partners*
- ▶ Positioning to Sell
 - *Designing your Exit Plan*

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Agent to ISO

- ▶ Are you ready to take the next steps?
- ▶ What a changing world the Acquiring business has become
- ▶ Competition grows more each year
- ▶ Associations enforce their rules of compliance
- ▶ Interchange is more Complex

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"Help me, Mr. Wizard!"

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An Agent's Life

- ▶ 3 or 6 tier pricing – qualified, mid-qualified and non-qualified
- ▶ Buy-Rate
- ▶ Shared Revenue
- ▶ Training provided- *some times*
- ▶ Customer Service- *provided*
- ▶ *Very little detail provided to manage the business*

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Gilligan's Island

- ▶ Find a Mentor



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Getting to the next Level

Where do you begin ?



I Dream of Jeannie
Going Wholesale

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Taking the next step to an ISO

► Cost

- Interchange
- Association Fee
- Bank Sponsorship Fee
- Processor Fee
- Transaction Fee
- Overhead Fee
- Minimum Fee
- Annual Fee
- Statement Fee

► Cost

- Batch Fee
- AVS Fee
- Chargeback Fee
- Retrieval Fee
- Voice Auth Fee
- Debit Fee
- Underwriting Fee
- Help Desk Fee
- Bin Fee

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Mister Ed

- Always giving his opinion on the subject



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Industry Processing Costs

- What does a Processor Want?
 - Confessions of an ex-Processor
- What are my Peers paying?
 - It's probably more than you think
- The Magic of "TCPT"
 - Why an auth price is sometimes irrelevant
- Third-Party Processing Pricing Trends
 - Some are going up and some going down



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What does a Processor Want?

- Confessions of an ex-Processor
 - Transactions, transactions, transactions
 - \$ Volume is secondary
 - Length of Term
 - Make it tough to move
 - Deconversion expenses
 - Liquidated damages
 - Ancillary products



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What are my Peers paying?

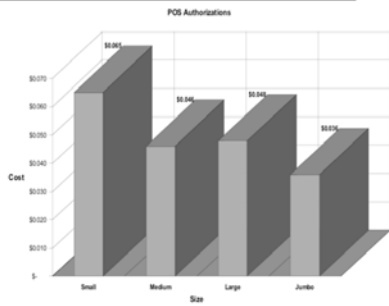
- 2005 Pricing Benchmark Study
 - Annual price survey of the industry
 - Largest of its kind
 - Represents more than 200 million transactions
 - Participants from 50 million to only 93,000 monthly trans

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Average POS Auth Cost



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Front-End Auth Summary

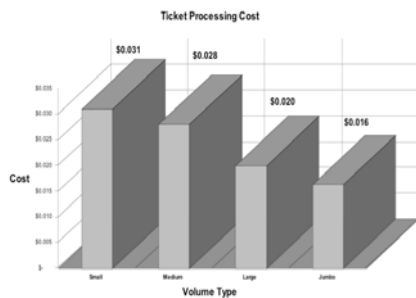
- ▶ Size still matters – maybe just a little less:
 - the largest size portfolios have a 45% price advantage (down from 60% in 2004) on the small portfolios for POS Auths
 - and a 65% price advantage (60% in 2004) on the total Front-end Authorization Cost per Transaction.
- ▶ In real terms, the largest players
 - have a 7.6¢ cost advantage per Front-end transaction over the smaller acquirers.

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Average Ticket Processing Cost



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Back-End Settlement Summary

- ▶ The relative cost to scale difference in the Back-end area is less extreme
 - Here the largest size portfolios had only a 1.5¢ price advantage on Settled Tickets, or a 47% price advantage on this key line item cost.
- ▶ The File Maintenance Fee is another line item is increasingly being used as a "bundled" line item, with other functions being included in its price
 - We also found that a low ticket fee can sometimes translate into other higher On-File fee.

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Processing Pricing Trends

- ▶ There is a consistent two-tier pricing model for the industry
 - Those with under 1 million/trans/month average 11¢ to 25¢ per transaction
 - Those with more than 1 million/trans/month average 5¢ to 9¢ per transaction
 - Moral: for a sub 10¢ transaction cost - process more than 1 million transactions a month



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Processing Pricing Trends

- ▶ Overall processing costs showed a slight decrease when compared with 2004
 - The 2005 CPT decreased for three of the four size categories in the Study.
- ▶ New products and services are being introduced by processors that are increasing the overall "bottom of the invoice" cost per transaction

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Processing Pricing Trends

- ▶ Scrutinize Reporting costs
 - *There is some evidence that Reporting costs have dropped over the last year*
 - *Acquirers are reducing their demand for multiple reporting methods that include paper, CD-ROM and transmitted reports*
- ▶ We have noted a consistent decrease in Internet related transactions
 - *There was dramatic decrease in monthly fees, as well as transaction charges.*

The Magic of "TCPT"

- ▶ It's not the auth price – it's the total cost per transaction!
- ▶ Total Monthly cost / total Monthly Transactions = TCPT
- ▶ A low auth and ticket price is good – but a low TCPT is the key to competitive pricing

Picking Your Bed Partners

- ▶ The Request for Proposal (RFP)
- ▶ Four Phase Approach
 - *The written overview of the ISO*
 - *All the numbers –Processor fees*
 - *Back Room – Operations*
 - *Sales*

Maxwell Smart - Agent 86.

- ▶ Do not rush ~ 4 to 6 months



The written overview of the ISO

- ▶ Your overview of the company
- ▶ Portfolio Detail- Key Statistics
- ▶ Vendor Research and Identification
- ▶ Identify Targets
- ▶ RFP Distribution
- ▶ RFP Review / Vendor Selection
- ▶ Selective Negotiation

Dick Tracy

- ▶ Pay close attention to the detail



All The Numbers

- ▶ Front-end
- ▶ Back-end
- ▶ Bank Clearing Relationship
- ▶ Conversion Plan Back-end
- ▶ Conversion Plan Front-end

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Back Room ~ Operations

- ▶ IT Infrastructure and Support
- ▶ Data Security & Association Compliance
- ▶ Bankcard Risk and Compliance
- ▶ Customer Service
- ▶ Operations Plan
- ▶ Software Needs

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Sales

- ▶ "Hold everything!"



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Sales will make you Succeed

- ▶ Product Plan
- ▶ Merchant Pricing
- ▶ Other Sales Channels
- ▶ Web Solutions

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Pick the Partner Summary

- ▶ Focus on the changing world of Acquiring
- ▶ Competition Growth
- ▶ Associations Rules
- ▶ Cost of doing Business

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Positioning to Sell



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Positioning to Sell

- ▶ Optimize your potential return by preparing for a monetization event
- ▶ Plan ahead to realize the largest potential value for the asset you are building
- ▶ There are key steps that can be taken in advance



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Top 10 Exit Preparation Strategies

1. Own your own BIN/ICA
 - *Eliminates potential post-sale conversion issues for new buyer*
2. Control Attrition
 - *By controlling attrition with a good retention strategy – you maintain maximum value*
3. Avoid processing contract limitations
 - *The more you limit the options of a potential buyer the more you decrease the value*

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Top 10 Exit Strategies

4. Build a unique sales channel
 - *The more distinctive your business strategy the more attractive to a potential buyer*
5. Avoid over-concentration
 - *High concentrations by geography, SIC code or a few major merchants can decrease the value*
6. Get Audited Financials
 - *Buyers want numbers that can be trusted*

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Top 10 Exit Strategies

- **Build Good Reporting**
 - *The better the financial and demographic reporting of your business increase the certainty and the value of the business*
- **Assignable residual stream to buyer**
 - *Read you contract carefully*



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Top 10 Exit Strategies

9. Great Management Team in place
 - *A buyer wants to be able to maintain the sales and operations continuity*
- **Get good advice**
 - *Ask for guidance from experienced professionals*



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Questions?

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