



Payments, Pt. 1: A Technology Solution Profile

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About the RSPA Strategic Technology Solutions Committee

C The STS committee profiles a solution category in each issue of connect. This month, payments is being profiled by the STS Vice-Chair David Gosman, CEO of pcAmerica. Payments have always been a huge part of retail solutions, so this profile is the first of several articles that cover different aspects of payments.

Can you teach me a little bit about payments?

'Payments' is a very broad term. For this article we are defining payments as electronic transactions other than cash or check that exchange money between a consumer and a business. There are two primary categories of electronic payments - open loop and closed loop. This article will focus primarily on open loop.

Open Loop payments primarily consist of credit and debit cards that can be used at any business that accepts them. With minimal exception, anything that carries a Visa, MasterCard, American Express or Discover logo falls in the open loop category.

Closed Loop payments are methods of payment that can only be used at specific businesses. Often these accounts hold a balance that is pre-funded by the consumer. Popular examples would be the Starbucks card, or any store-specific gift card.

Take a look below (🔗) for a quick plain-English glossary of terms used in the payment industry that you've likely heard but may not understand. These definitions are kept simplistic to help you understand the big picture.

So here's how it works:

This is the part where the merchant charges the card. You (the cardholder) go into a store (the merchant.) You bring an item to checkout and swipe your credit card. The point of sale system (or credit card terminal) packages up the transaction and routes it to the front-end platform of the acquiring bank. The acquiring bank routes the transaction to the correct issuing bank. The issuing bank determines if it wants to accept and fund the transaction. This determination is routed all the way back to the merchant's POS system, which then indicates to the cashier whether or not to let you out of the store with your merchandise.

This is the part where the merchant gets its money and the cardholder actually gets billed. When the merchant settles at the end of the night, their batch is sent to the acquiring bank's front end network. The front end network routes it to the back end network. The back end network will trigger an electronic deposit into the merchant's actual bank account, and tells the issuing banks how much to bill each of their cardholders. The issuer adds the amount to the cardholder's balance, which is included on the cardholder's monthly credit card bill.

Can you teach me about some of the newer stuff I've been hearing about, such as mobile wallets and alternative payments?

There is a huge buzz around the concepts of 'mobile wallets', 'mobile payment' and paying with your phone. At their core, mobile wallets are electronic accounts on your smart phone that can be used to pay for goods or merchandise. They are typically linked to one or more credit cards, or directly to the consumer's bank account. The wallet is charged differently based on the technology of the wallet and phone - typically by presenting or scanning a QR code, or using the phone's NFC capability by tapping the phone.

There has been a challenge getting consumers to adopt mobile wallets, as they offer no significant benefit over paying by credit card. Starbucks has been one of the rare exceptions, garnering heavy adoption by offering loyalty points tied to its mobile wallet. A few new mobile wallet products are advancing into the market that now offer a similar approach for other businesses. Additional information on loyalty is available from the "Loyalty" article STS provided for the November issue of [connect](#).

Why does a merchant care about payments?

The basics are obvious - merchants need to have an easy, fast way to accept money from their customers. Credit cards have been a staple of the retail world for years. There are several factors regarding payments that are of varying degrees of importance to merchants.

- The rates, while often confusing to understand, generally lead the list.
- Funding time dictates how fast the money from a settlement will reach the merchant's bank account.

IN OTHER WORDS

Cardholder (noun): the customer who is paying by credit card, debit card, etc.

Merchant (noun): the business that is accepting the payment. This could be a retail store, restaurant or any point of sale dealer that takes credit cards.

Issuer (or Issuing Bank) (noun): the bank or financial institution that issues the cards, bills the cardholder and is the final say in approving or declining the card.

Merchant Account (noun): the contract that dictates the credit card processing rules and rates for a merchant.

Acquiring Bank (noun): the bank that holds the merchant account contract with the merchant to provide the credit card services.

ISO (noun): A business which sells and services merchant accounts on behalf of acquiring banks. Some acquiring banks

only use ISOs. Others only sell direct. Some do a mix of both.

Front End Network (noun): the technology platform that handles approvals and rejections of transactions, and also captures certain details of each credit card transaction.

Back End Network (noun): the technology platform that is in charge of moving the money (from all approved transactions) between parties. This is triggered when the merchant settles or batches their credit cards for the day.

Interchange (noun): The fee that is charged by the issuing bank to the acquiring bank in order to process a credit card. This is generally considered the base cost of processing credit cards. The acquiring bank charges their own fee to the merchant (for providing approvals and holding the risk), and the ISO also levies fees for the additional level of service they provide.

Confusing (adj.): all the terms in the electronic payments world.

- Merchant accounts often come with low-cost or “free” gift-card processing, which is a great add-on that also increases retention.
- Additional payment methods, such as EMV and mobile wallets, are marching towards adoption. Merchants want to make sure they can accept money in the way customers are trying to spend it.
- Some of the newer mobile wallet solutions also include loyalty and marketing elements, which can add huge value to a merchants business. STS will provide a profile on Mobile Wallets in a future issue of [connect](#).

Why does a channel partner care about payments?

Channel Partners can embrace payments as part of their business and enjoy several benefits.

- Resellers can make recurring revenue for referring merchant accounts to payment processors.
- A consultative approach to offer integrated solutions, combined with knowledge of new payment methods, can help win customers.
- The newer mobile wallet solutions, and the associated loyalty and marketing features that go along with some of them, can be a huge competitive advantage and another source of recurring revenue.

What features should I look for in a leading payments solution?

Those looking to get involved in payments involvement should consider relationship as much as revenue share, and innovation as much as existing functionality. Below are several factors to consider:

1. Pick a payments partner that knows everything there is to know about payments. You don't have to be an expert on payments, but it is essential that your partner is an expert.
2. Ensure your platform of choice is interfaced into the POS systems you sell.
3. Try to avoid local middleware to connect the payments to the POS, which can be costly and support intensive.
4. Straightforward quoting helps. Some processors quote with a “cost plus” model or flat rates, while others provide a large menu of rates depending on the card type. A straightforward quoting process is easier to explain and is appreciated by merchants. This is relevant even if you are referring deals and not quoting directly - you want to maximize adoption rates in both scenarios.
5. Revenue share that is consistent for the life of the account is a major factor, and one of the primary reasons dealers get involved in payments.
6. Understand who does the support, and how effective they are at providing it.
7. Ensure your partner understands PCI compliance, and can clearly explain how they ensure payment compliance with the merchants.
8. A bundled gift card and loyalty option can help you close more POS deals.
9. Mobile wallets may not have a large user base yet, but they still hold a wow factor and can add real value. Have one of these in your portfolio. Some cities already have a limited but growing user base, and this will grow over time.

Who are the leading payments vendors?

There are many channel-friendly vendors in the payments space. The following payments solutions are offered by RSPA members and can offer revenue-share partnerships:

Merchant Processors:

- Heartland Payment Systems
www.heartlandpaymentsystems.com
- Merchant Warehouse
www.merchantwarehouse.com
- Merchant Link
www.merchantlink.com
- Mercury
www.mercurypay.com
- PayPros
www.paypros.com
- Vantiv
www.vantiv.com
- Sterling Payment Technologies
www.sterlingpayment.com
- Xpress-Pay
www.xpress-pay.com

Mobile Wallet & Loyalty Providers:

- Isis
www.paywiththis.com
- LevelUp
www.thelevelup.com
- Midax
www.midax.com
- Paydiant
www.paydiant.com

Disclaimer: STS aspires to include contact information for all relevant RSPA member companies in each solution profile article we produce for [connect](#). If you are a vendor who believes your company should have been mentioned in this article or any future article, please let our committee know so we can update article content as appropriate.

How much of an investment is required to get involved with payments?

For the most common forms of payment processing, little investment is required. Some of the above providers will share recurring residual income with a dealer simply for referring a warm lead to them. Dealers can, however, earn higher amounts for taking a more active role in the pitching, quoting, sign-up and configuration stages. Closed-loop

solutions (which STS will focus on in a future [connect](#) article) that have additional features such as prepaid balances, loyalty points and other aspects may require more of an investment but can also be a source of margin-rich consulting dollars.

Upcoming STS Solution Profiles

STS will be profiling Mobile Solutions other than Mobile POS next, so if you are a vendor and wish to be included in the article content, or you are a reseller and are happy with the non-POS mobility solution you currently sell, please let us know who you are by emailing Amber Murdock at RSPA: Education@GoRSPA.org. [C](#)

Vendor Evaluation Checklist

1. Training

- Do they offer training?
- Is it via webinar or in a classroom?
- What is the cost?
- Will they come to my office or do I need to travel to them for training?

2. Upfront Investment

- Will they provide demo units? At what cost?
- Is there a dealer fee?

3. Sales & Marketing Support

- What marketing services does the vendor offer?
- Can leads be expected?
- Is the vendor able to assist on sales appointments?

4. Technical Support

- How much does support cost?
- Is support for dealers, the end users, or both?
- Is support 24/7?
- What are the turnaround times for repairs?
- Are repairs stateside?

5. Margins

- How much money can I realistically make?
- What do the partner program tiers look like?

6. Channel Program

- What channel conflict can be expected?
- Does the vendor also sell direct?
- How many dealers are already in your region for this vendor?
- Do my current distributor partners carry the vendor?

7. Awards & Accolades

- Has the vendor received any relevant awards?
- Can I speak with an existing reseller to get their opinions of working with you?

Part 2, to be featured next month.