

# Bank On Payment Processing

POS VARs can leverage their client relationships to expand into payment processing.

BY BRIAN ALBRIGHT

For resellers that have established themselves in the point of sale (POS) market, expanding into payment processing seems like a natural migration. In order to be successful in the processing sector, though, VARs will have to forge a strong partnership with their vendors and compete with traditional independent service organizations (ISOs) and agents that have more experience.

"VARs have a certain captive audience," says Joe Natoli, senior executive vice president and director at NPC. "Those merchants have spent a considerable amount of money on their software and hardware, and there is an element of trust with the VAR. That makes for an easier segue to get into processing when there is already a VAR relationship."

A POS VAR can combine payment and processing into one offering, as well as integrate these functions to provide better ongoing service. "Since the VAR must set up the integrated POS system, it is in a commanding position to influence the merchant's choice of a payment processor," says Nick Peirson, vice president of business development at WorldPay U.S.

Whether the VAR or the ISO/agent actually has the advantage will depend on the customer. "The basic ISO/agent can easily install a cost-effective terminal that is simple to use and provides secure payment processing, where the POS VAR often focuses on advanced functionality tailored toward the particular merchant: order entry for restaurants, being able to ring up items and track inventory, etc., with payment often a secondary function," says Jana Franks, vice president, global partner management at First Data.

ISOs, in fact, may have an easier time learning the ins and outs of POS systems for a particular vertical than a POS VAR would have diving into payment processing. However, POS VARs can easily ramp up their knowledge once they've identified a need for offering payment solu-

tions to their merchants. "While the ISO or agent might be more familiar with the intricacies of interchange qualifications, card types, batching, and the gift and loyalty side of the processing business, the POS VAR that is able to find the right relationship with a processor or acquirer can easily gain the knowledge to be a value to the merchant," says Michael Nardy, CEO of Electronic Payments Inc. (EPI).

VARs have to ensure that the features and functions of the payment solution are targeted at the specific POS market they service and monitor the payment processor's development queue for new features that their merchants might be interested in. At the same time, they have to offer the payment and security functionality that will meet their merchants' needs. This will require a close partnership with the payment processor and possibly even establishing a partnership with an existing ISO or agent.

## PCI Compliance Is A Key Consideration

Security and compliance with Payment Card Industry (PCI) standards are critical in any POS and payment processing implementation. Typically, card data is encrypted at the POS, then sent to the processor where it is decrypted and transferred for authorization. The card data is tokenized in the return message, replacing the account number with a randomly generated number that can be used in place of the account number for returns, reversals, batch settlement, and recurring payments.

This approach minimizes PCI exposure for the VAR and the merchant, thus reducing the cost of security compliance and the potential for breaches. Using tokenization this way allows merchants to also perform a variety of other functions without risking cardholder data. "VARs and ISVs should be looking for a processing partner with a robust tokenization solution that supports standard encryption options and advanced token solutions to protect data," Franks says.

Processing vendors should have the systems, procedures, educational collateral, and dedicated PCI support in place to help VARs manage compliance for their customers. VARs should also be prepared to have to educate smaller merchants on the need for compliance.

"There are common misperceptions with smaller shops," Natoli says. "They think they don't need PCI because they don't do Internet transactions, or because they're a small company. Everyone needs to worry about it. Just a couple of breached cards



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could put a small merchant out of business. VARs should partner with a vendor that takes PCI seriously and has the resources for support that are necessary."

By adopting a processor's security solutions that minimize PCI scope and shift security risk from the merchant/VAR through encryption and tokenization, the VAR can focus on development efforts to support new payment offerings. "It is advantageous to make sure the processing entity can support gift, loyalty, check, and now e-commerce and mobile opportunities, ranging from acceptance of near field communications (NFC) payment devices, to remote payments and marketing incentives that may be monetary or item-level based," Franks says.

PCI compliance does not guarantee there will be no data breaches, which is why payment card security should go beyond the basic compliance guidelines. Using encryption and tokenization can cut compliance costs by as much as 50%, and according to Nardy, taking a more active role in security issues can provide benefits to the VAR.

"Those VARs that leave PCI to the payment processor are doing a disservice to their customer," Nardy says. "It's essential to assist their clients with the online self-assessment questionnaires (SAQs) provided by many processors and to assist in network scans. In doing that and in assisting your merchant client with ongoing education about PCI, you can continue to build a strong relationship with the client as well as increase revenues from certain PCI services such as scanning and insurance."

### Selecting A Payment Processing Partner

When evaluating potential payment processing partners, VARs should look for processors that own their own platform; such companies can provide better partnership profit sharing, more control over reporting, and more advanced security and competitive pricing. Evaluate their POS software certifications and their outside sales force, and look for providers that allow access to batch and transaction data, statements, and programming data for the POS system, preferably via an online portal.

Lead monitoring and profit-sharing residuals are other important elements. "Residual revenues from processing companies should not be overlooked," Peirson says. "Margins are shrinking in this economy for both the initial sale of equipment and ongoing service contracts. As a result, the residual profit sharing from a processor that owns its platform can significantly increase the

VAR's revenue by eliminating the middleman.

"Not all revenue-sharing programs are equal," Peirson continues. "Many payment providers tout large percentages for residuals but apply that percentage to a greatly reduced earnings number. It is the dollars paid out that is important, not the advertised percentage."

Find a partner you can work closely with. "Let the processing vendor be the subject matter expert, and try to make joint calls or do joint marketing campaigns," Natoli says. "Unless you fully immerse yourselves in our industry, you won't be able to compete with the ISOs or other VARs that utilize the expertise and support from a major processor."

Make sure your sales objectives and customer management approaches align as well, or you could wind up suffering because of the processor's poor handling of an account. "It's essential for your payment processor to not do anything that would lose a customer for you, because a lost customer is not just a small merchant service commission," Nardy says. "It is a POS service contract, an additional system, recommendations and referrals, upsells for other products and software upgrades, etc. A VAR losing a POS customer is a far greater loss than a payment processor losing a merchant." ●



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