



Maximising the Benefits of the ISO Distribution Channel

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Origins of ISO Model



- ISOs developed late 1980s/early 1990s to fill gap – small acquirers, poor direct sales force, needed support
- Initial model - terminal sale, implementation plus maintenance
- Typically small, local organisations serving regional banks with small merchant clients – high margins
- Skills - selling, knocking on doors, local contacts
- Model expanded up value chain - processing and support/servicing contract plus bank
- ISO market grown – 50%+ US (and Canada) acquiring outsourced to non-bank players
- Schemes no longer so hands off – recent security breaches created concern – sponsor banks under review
- Largest now bid for portfolios – highly competitive market
- Margins shrunk; attrition/churn rising – focus on SMEs/higher margin support services



Various ISO Models

	Advantages	Disadvantages
ISO Company	<ul style="list-style-type: none">Contracted - greater potential to meet targetsCan deliver complete package of servicesIdeal to bridge sector gapsOften POS gateway providersCan be a pan-regional optionFlexible – deal can be terminated	<ul style="list-style-type: none">High cost – share of commissionsRisk criteria not always metPotential competitor (US experience)Lack of control/management
ISO Sales Force	<ul style="list-style-type: none">Improved rewards for ambitious sales peoplePayment by results – lower base rewardCan improve overall sales unit performanceFlexibility of employment – can be terminated	<ul style="list-style-type: none">Arms length employment relationshipsFor specialists often high costComplexities of management and controlFriction with FTE employeesRisk criteria often not achieved
Supplier Alliances	<ul style="list-style-type: none">Ideal for e-commerce referralsLow cost and often effective	<ul style="list-style-type: none">Complexity of setting up/creating dealsLoyalty cannot be guaranteed
Agency/Referral Arrangements	<ul style="list-style-type: none">Works well if bank/bank branch is agentTypically lower cost of sales than directEnables national market/regional spread	<ul style="list-style-type: none">No control over sales processRisk criteria not always metOften own staff have to close saleLack of partner skills/expertise



How to make ISOs work?



Commitment

Strategy

Commercial
Terms

Good
Communication

By both parties as this will have an impact on the success of the relationship

Both parties must be clear on the overall strategic direction e.g. sectors

Both parties must feel that the relationship will benefit each other to justify the effort

Good communication is vitally important in making the relationship works



Impact on Acquirers?

Benefits

- **Greater Coverage** – ISOs can reach certain sectors or parts of the country where acquirers have little or no presence
- **Cost Effective** – ISOs are a cost effective resource to recruit merchants when compared with the fully loaded cost of direct FTEs
- **“Strategic” Fit** – Acquirers are able to manage ISOs to only recruit merchants based on their strategic approach e.g. Retail Only
- **Hardware Investment** – Many ISOs also supply POS devices as part of the overall service and reduce the investment of the acquirers
- **Value Added Services** – ISOs can also offer value added services e.g. DCC which

Downsides

- **Non-Exclusive Relationships** – Where an ISO has multiple acquiring relationships this can cause business to be lost to the competition
- **Business Tensions** – Quite often tension can build up between both parties if tension is seen in the partnership
- **Merchant Relationships** – With the increase in contact with ISOs, the on going relationship becomes stronger with the ISO at the expense of the acquirer
- **Lack of Control** – If the ISO is not closely controlled this can impact the acquirer’s reputation and impact on merchant recruitment
- **Impact on Sales Team** – Often the remit of the local Sales teams and ISO overlap competing for the same business



Commercial Arrangements



- **Competitive MSC Rates** – ISOs must feel that the commercial terms which they can offer to merchants is competitive
- **Incentives** – ISOs should be incentivised to grow portfolios and be rewarded
- **Avoid Paying for just signed accounts** – Acquirers should avoid merely paying for new accounts
- **Exclusivity Contracts?** – Difficult one to agree going forward as each party may want the opposite
- **Wholesale Price Drops** – Acquirers should ensure that ISOs do not merely reduce MSC rates just to win business



ISO Threat to Acquirers?

- **Preferred Supplier Relationships** – A strong ISO with a major portfolio becomes very attractive to acquirers and upsetting this relationship can cause portfolios to move
- **Merchant Relationships** – With the increase in management of merchant relationships by ISOs, the acquirers can become quite removed
- **Acquirer Value Chain** – ISOs are increasing their share of the acquirer value chain with value added services e.g. MI
- **Price Compression** – ISOs able to negotiate low MSC rates as portfolios grow impacting the overall profitability of acquirers





ISO the Future?



- **Portfolio Purchases** – As ISOs grow their portfolio they become attractive for acquisition e.g. Cardsave
- **PI Licences** – ISOs can become full acquirers under the PSD and totally cut out the acquirer
- **UK Market** – ISO are very important channels for the UK acquirers and will continue to be so
- **EU** – Some markets EU markets use ISOs but not as extensive as the UK but the expectation is that opportunities will continue to evolve
- **Card Schemes** – ISOs will remain closely monitored by the card schemes but will play an increasing role within the industry



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