

FEATURE STORY

ARE ISOS MOVING AWAY FROM PAYMENTS?

by Harold Montgomery



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That headline may seem like heresy. It jars me every time I read it. But as I travel around the country I hear more and more that ISOs are searching for additional sources of revenues beyond payments. The very phrase Independent Sales Organization or ISO is (I think) unique to the group of businesses that are dedicated to selling payment processing services to retail and small business clients. The very phrase was coined to describe them. So what would it mean if ISOs diversify their product offerings? Is it conceivable that in, say, 5 years ISOs will be selling a variety of products and services, only one of which is payment processing? I think it's not only conceivable, it's inevitable. More importantly, ISOs mastering this new multi-product future are alive and well in the UK, providing examples of how U.S. ISOs can make the transition successfully.

Why would U.S. ISOs be investigating adding additional products and services to their sales repertoire? There are several reasons. One is that most U.S. ISOs have seen persistent margin decline in their payments customer base. This downturn has been steady the last decade and shows no sign of stopping. Several U.S. ISOs I have spoken with report that merchants are even more price sensitive than ever in this tough retail environment. In addition, one U.S. ISO told me that the sales cycle—the length of time needed to complete a sale—was stretching out longer each year. A lengthening sales cycle is not a good trend because it adds costs to operations in ways that are hard to detect. As the saying goes, time is money and the more time it takes to sell a merchant, the more it costs to sell that merchant, even if the costs are not direct. A longer sales cycle also delays the onset of revenue.

There's also a drive to make the customer relationship more comprehensive and therefore durable over time. The buzzword for this is 'stickiness.' The theory goes that if you are selling the customer two or three or even four services, changing vendors will be more difficult. This one makes sense on the surface, but needs to be time-tested. It's not clear that a merchant buying processing and insurance from one company will hesitate to cancel his processing contract for a cheaper one unless there's some concrete reason to hesitate.

And of course, the most often heard argument for product diversification is adding additional revenues from the same customer base. On paper this one makes sense. Theoretically, if an ISO has a meaningful relationship with a merchant then, there's the trust and confidence needed to leverage the relationship into other services over time. If this situation results in a shorter sales cycle for the new service that adds revenues quickly, it all works out.

What UK ISOs have discovered is that each product or service requires its own knowledge base and sales skill set. Salespeople who are good at selling merchant services may or may not be good at selling insurance, for example. There are certainly differing knowledge and skill bases required for each and a different sales cycle for each. Certainly, they can't be sold in the same single interaction with the merchant. That means the sales approach will unfold over time and each new product introduced to the merchant will require well-trained, skilled salespeople.

Each new product will also require new measurement tools to manage the operations and process flows, vendor interactions and implementation sched-

ules as well. There will also be a need to support each new product with knowledgeable customer service people.

The financial realities of adopting new services into an existing ISO are worth considering. Each new product amounts to a totally new business in itself. There may be skills, resources and experience that an existing ISO can lend to speed the start-up of this new business. But the basic assumptions upon which a new product/service business plan are built need to be developed from scratch and not lifted out of the experience of the payments ISO.

UK ISOs have done a terrific job of cross-training their personnel and supporting a wide variety of products and services providing small businesses with as close to one-stop shopping as I have seen anywhere. They did it out of necessity. Payment processing margins in the UK are about half what they are in the U.S. on average. To UK ISOs, merchant processing is one of many products they have to offer to be successful, not the be-all-and-end-all of their business definition. Here in the U.S., ISOs grew up in an environment that allowed entire enterprises to be based on the distribution and support of a single product. In the UK, the environment never supported that, and so ISOs adopted the multiple product model from the beginning.

UK ISOs are selling payment processing, insurance, payroll processing, pre-paid legal help, Value-Added Tax refund products, e-commerce services, mobile phone card top-up services and a host of other services. Could this multiple product line be the next wave in the evolution of U.S. ISOs? ■