

# MONEY GUY



# ELAVON LEADS THE WAY OVER THERE!

by Harold Montgomery



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I recently attended the Elavon European Partner Summit in Brighton, England, where attendees were primarily Member Service Providers (MSP) that do business with Elavon in Europe. What I saw there gave me a look at not only a key opportunity for U.S.-based ISOs, but also a glimpse into the future of the ISO business in the U.S. Elavon's MSP program has been well developed in the U.S. and Canada, staffed with seasoned professionals who have spent their careers in merchant acquiring and the ISO space. David McAlhaney leads the North America team, supporting some of the most successful and professional ISOs operating in the U.S. and Canada. His counterpart in Europe, Louis Carron, is building on Elavon's success in this important growth channel.

A few years back, Elavon opened up an ISO channel in Europe, starting with the UK and the Continent, with a focus on the Benelux Countries, Italy, and Poland. MSPs began to sprout in response to the entrepreneurial opportunity. There were 65 businesses and over 150 people attending Elavon's partner conference – a sign that things are going right for them across the Pond.

I had the chance to visit with many MSPs while I was there, and I found them to be smart, knowledgeable business people who understood exactly what value added they could provide to merchants in their respective markets. A few notable observations stood out:

All the MSPs I spoke to, and others I have read about sell more services than just payment processing. In fact, many of them regarded merchant processing as a necessary but secondary product — something that either completed their product line or which was a necessary prerequisite to their main line of business. For example, one MSP I spoke to sells a variety of business services ranging from insurance to accounting services, and of course, merchant processing. Another was primarily involved in

selling cash advance for which merchant processing is a necessity, but a by-product. American ISOs tend to think of merchant processing as their core product and anything else as an add-on to earn extra money. But UK ISOs may be showing us a glimpse of our own future.

Another notable observation about the UK market was that net margins to the ISO/MSP tended to be about 20 basis points over interchange and processing costs. The average merchant yields about L20 per month. That's about half of what the same merchant would yield in the U.S. That level of margin means UK ISOs must be much more careful about their costs than their U.S. brethren. This level of margin explains the need for other products and services to increase the profitability of each merchant relationship.

Salespeople in the UK must be trained on a wide variety of products and services. They never know what they will be selling from one call to the next. They have to learn to sell multiple complex products to a merchant to fully develop the relationship. Each salesman has to be a specialist in many products.

The UK market is mature in the sense that almost all merchants have processing capability. Banks have historically provided the service to their merchant and small business clients. MSPs are later entrants whose main role is to provide the service at a cost lower than the banks and with better service. It's a classic case of the little guy providing a better product than the large bank.

Elavon has successfully crafted an MSP opportunity in the UK and Europe that provides opportunities where none existed before. That takes leadership and vision. According to CEO Mike Passilla, they intend to open more markets to MSPs as well, which will provide opportunities beyond anyone's imagination today.

U.S. ISOs can take advantage of these opportunities by taking their expertise

and systems overseas. The UK market is a perfect example of the opportunities that await the adventurous ISO. U.S. ISOs have valuable experience in sales management and leadership that will be instrumental in non-U.S. markets. Leadership, the ability to spot talent and solid measurement systems are the keys to success in these new markets.

There are challenges in these new markets, of course. Cultural barriers can't be ignored. There are ways of doing business in the UK for example that don't apply in the U.S. Merchants are used to buying their processing services from a bank and aren't familiar with the independent distribution channel, so there's an education and trust hurdle that must be overcome. Any overseas move by a U.S. ISO should be based on finding a local partner with whom to build the business based on the strengths of the parties. Also, solid in-country legal advice is essential.

Each country has its own regulatory regime governing financial services. Interchange in Europe generally has been lowered to around 30 basis points as a result of regulatory action. It's not clear if this was a good move or not and many players in the system are asking hard questions right now. One unintended effect however has been to focus the Association's energy more on developing new markets where interchange is not regulated. Look for moves into Asia and Africa in coming years. These developing markets are becoming wealthier and the infrastructure is improving. The electronic payment processing business in Africa probably won't look like its American ancestor, but it will be there.

International opportunities are complicated and challenging, but they are becoming more real every day. The kind of leadership Elavon has shown makes an international expansion as turn-key as it will ever be for a U.S. ISO looking for growth. ■