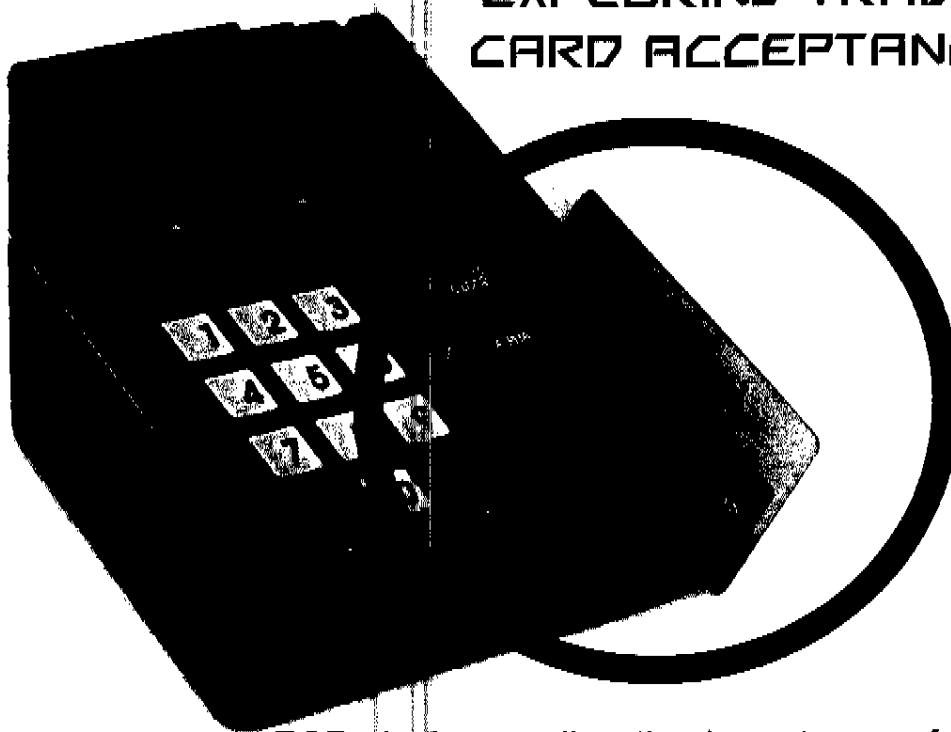


TECHNOLOGY DRIVING REVENUE: EXPLORING TRADITIONAL AND NEW CARD ACCEPTANCE ALTERNATIVES



BY: DEEPAK WANNER

While most ECR dealers realize the importance of delivering an integrated card acceptance solution, few understand how vastly different the available technologies are, in terms of features, flexibility and costs. By understanding the technology that underpins card acceptance solutions, resellers can quickly gain an edge in this highly competitive market sector. Between dial and internet protocol (IP) based processing, one box or two, multiple or fixed processor choice, it is clear that in the world of ECR card processing, all solutions are not created equal.

The Significance of Card Acceptance

Today's North American consumer has come to expect the convenience of non-cash payment in almost every retail environment. A 2005 Federal Reserve Payments Study, revealed that electronic payments grew more than 30% between 2000 and 2003, and predicted that debit and credit transactions will both surpass checks in terms of total annual transactions in 2007. Beyond credit and debit, newer card technologies are beginning to take hold as well, such as contactless, of which Global Payments' Greg Cohen has said "Contactless is going to happen...the growth is phenomenal and this is just the beginning...the cards and fobs are moving onto the street quickly, much faster than planned".

Leveraging Technology for Revenue

The competitive environment for ECR dealers is increasingly vigorous, with PC-based POS systems gaining popularity, internet-based resellers, and office supply stores offering cut rate prices on off-the-shelf ECRs. Increasingly, resellers are turning away from hardware prices as the basis for competition and focusing instead on value added applications, support and tools. As *Business Solutions* Editor Dan Schell notes; "The obstacle is competition from Internet resellers and office supply stores...sometimes you can give your client all of the information on a product, only to have the client make the purchase through another channel. To help avoid this happening, do what you always do as a VAR: stress service and your technical expertise". With staggering technology changes over the past few years, the challenge for resellers is to select those that hold the best opportunity for growth over the short and medium term. Card payment technology is one area that resellers should consider carefully, as CRS VP Bruce Mann states in the June 2005 *Datalink*:

"IP processing, gift card programs and electronic payment integration are solutions that shift the focus from price to performance".

IP processing has become the de facto standard for transactions in many retail sectors for a few reasons. First, retailers save on monthly communications costs by using an existing internet connection to process their transactions, thereby eliminating a dedicated telephone line. Second, secure IP based transactions are dramatically faster than those processed on a dial line, reducing transaction times from over 12 seconds on average, to under 5. In high volume ECR environments, this can translate into a very tangible improvement in customer service. Third, broadband networks are highly reliable, and have inherently valuable properties such as bi-directional routing. Among ECR users, use of IP technology is still in its infancy. In part, the lag in IP technology adoption in this sector has been due to the absence of a solution that is simple and cost effective to deploy and manage.

Card Payment Options

Like any technology driven by industry trends, card acceptance for ECRs has been an evolution. From manual card imprinters, to stand-alone payment terminals, to integrated and now IP based solutions, this evolution is compelled by merchant and consumer demand. Until recently, ECR merchants have largely depended on one of two options to integrate card acceptance. New solutions are coming out marking the next step in this evolution, leveraging the inherent properties of internet protocol for a more flexible, cost effective design that puts resellers in the driver's seat.

Non-Integrated

Perhaps the most commonly used option, non-integrated solutions simply pair a stand-alone payment terminal such as a VeriFone Trans330 with an ECR at the checkout counter. Introduced before the boom in electronic payments beginning in 1999, it is still popular today. Back then, it was only the occasional transaction that involved a card of any type. Many small, low volume retailers still depend on this set up, which sends transactions over a dedicated telephone line to the processor's host. For merchants with low card transaction volume, this solution works well, though it does have a few drawbacks, primarily

difficulties with reconciliation and the inconvenience of issuing two receipts.

Integrated using Proprietary Boxes

The first integrated solution for card payments to hit the ECR market still enjoys popularity today. This set up connects a proprietary 'add-on' box via the ECR's serial port, sending card transactions to an established processor's host via a telephone line. As card transactions grew, this solution evolved into an IP based processing solution. In this scenario, the merchant must purchase a second proprietary box that is daisy chained with the existing unit.

Though this arrangement works reliably, resellers and merchants have recognized drawbacks, and have driven demand for the next phase in this evolution. Among these limitations is the cost of two units, which is prohibitive for many merchants. Another is the inability to send transactions to more than one processor. Often there are substantial savings to be gained by using different processors for each card type, but the cost of redirecting offsets these savings. Many merchants have no option but to send transactions through an intermediary processor, adding to overall costs.

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Towards a Simple Integrated IP Solution

With the industry demanding more flexible solutions, new products are arriving on the scene that connect ECRs to an IP network with only one box, at a cost less than a proprietary 'add on'. More than simply making the transition to IP less costly and cumbersome, these solutions have a broader significance. Control of the payment device, which manages message format changes, upgrades and configurations – is now in the hands of the reseller, instead of the vendor. This type of set up solves several problems for both the merchant and the reseller. Rather than paying a fee for even minor reconfigurations, the merchant can turn to the reseller, who now has access to network and transactional data to support the merchant.

Competing on service is easier when you have the tools. Some of the new solutions feature an on-board network configuration manager that alerts the reseller to problems, and provides a remote view of the merchant's end device. The merchant can access a customized dashboard with

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transactional and network statistics. Remote access means fewer onsite visits, and faster problem resolution.

Control of the payment device lays the groundwork for another key feature required by merchants: the ability to route to multiple destinations by card type. That means merchants can negotiate pricing and select the best processor by card type. With the payment device remotely configured by the reseller, the merchant eliminates the cost of redirecting transactions via an intermediary processor.

Many resellers believe this type of solution is the next phase in ECR acceptance evolution. "This goes above and beyond simply integrating card acceptance", said reseller Jerry Logan. "We can remotely view the merchant's store and network activity, allowing us to be even more proactive in offering support."

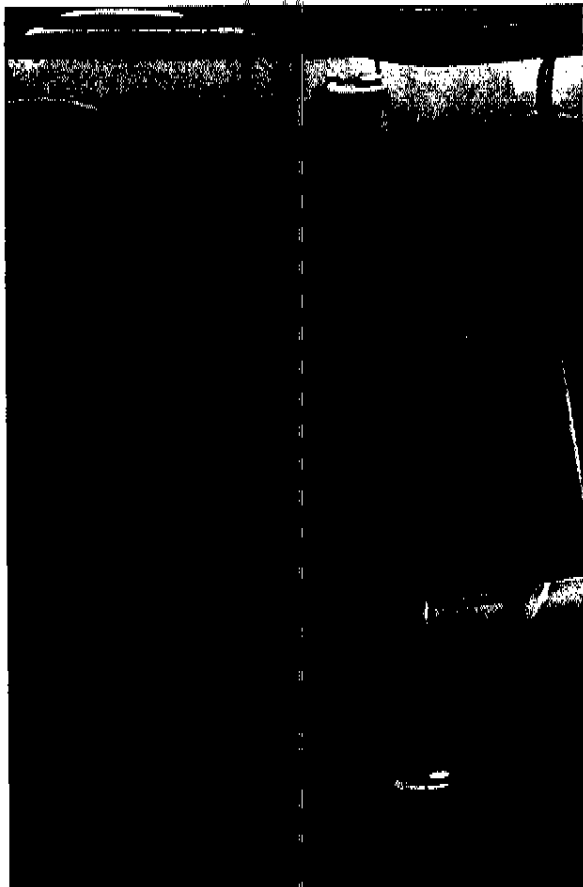
Looking to the Future

If there's one thing history teaches us about technology, it is that design must have an eye for the future, to extend the functional life of products even as new trends take

hold. In the world of ECR card payments, change is most likely in the growth of new card types and the hardware that support them. ECRs are in danger of obsolescence over time without the ability to integrate peripherals. Whether it is today's bar code scanners, ATMs and printers, or tomorrow's contactless smart card readers and biometrics such as retina scanners, the merchant has extra ports available for this evolution. While it may seem a long way off, the idea of electronic payments overtaking checks was considered out of the question just a decade or so ago.

After examining the traditional card acceptance options for ECRs, as well as newer, more flexible alternatives, it's clear that there is cause for a shift in the industry landscape. Resellers need to consider solutions that allow them to compete on more than one front: price, support, and value added features.

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