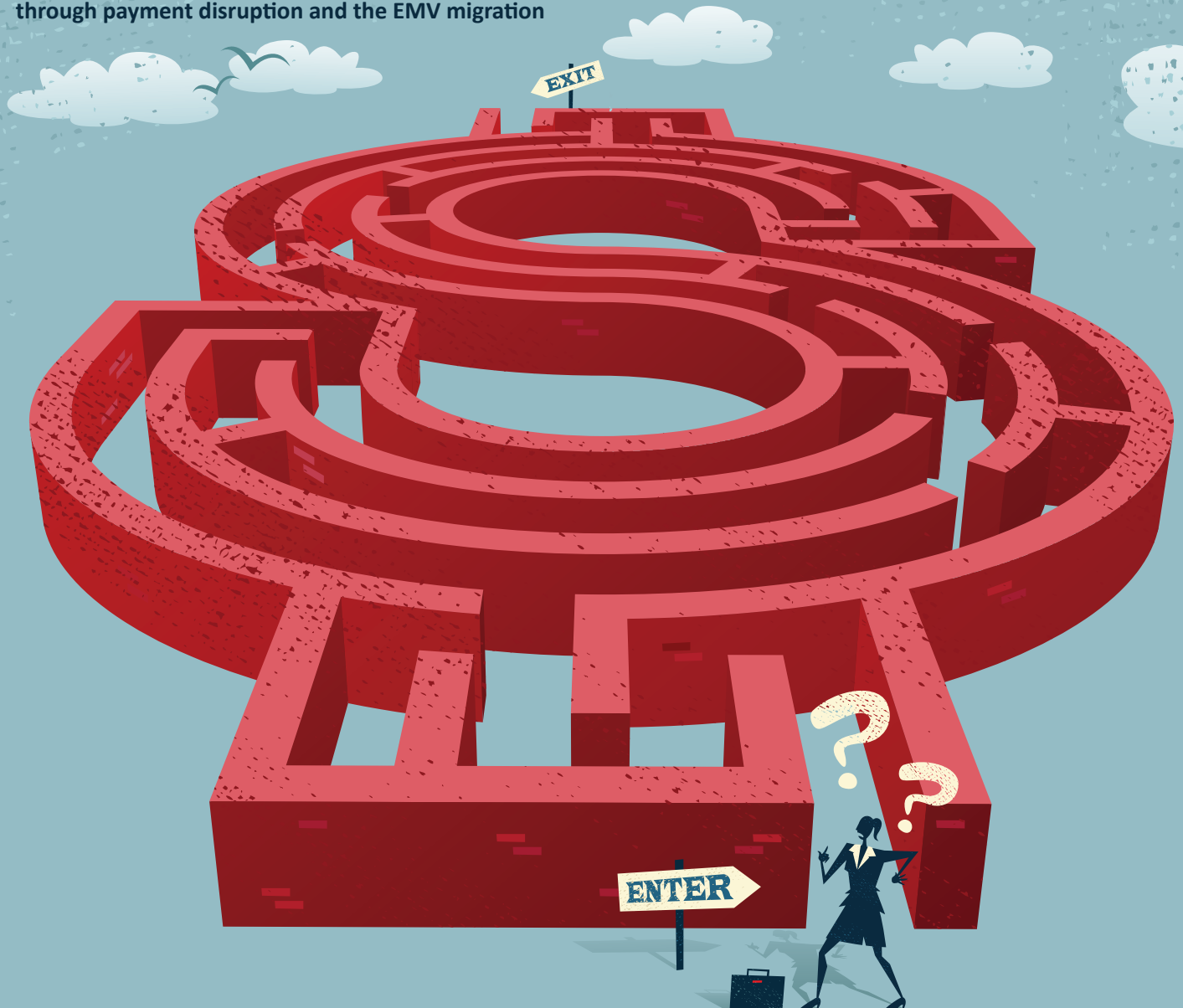


TRAPPED IN THE PAYMENTS MAZE?

Three industry leaders offer tangible tips leading SMBs
through payment disruption and the EMV migration



SCANSOURCE

MERCHANT WAREHOUSE

DATA CAP





EDITOR'S NOTE

RAPID SHIFTS EQUAL CHANNEL PAYDAY

Payments processing is big news, and for good reason. The way we pay for things is an integral part of every business, and it's shifting radically. Industry mandates, along with new ways to transact, leave SMBs questioning which way to turn, and how to make smart investments. Consider the following:

- Forrester predicts the U.S. mobile payments industry will reach \$142 Billion by 2019. Purchases via apps and mobile websites will account for the largest growth over the next five years, reaching \$91 billion. It also expects peer-to-peer transactions to grow \$17 billion in 2019.
- According to research by startup Stratos, 30% of U.S. smartphone owners will use Apple Pay and Google Wallet during 2014 holiday shopping.
- Verifone, which enjoys 60% share of retail payment terminals in the U.S., says its sales will be \$1.9 billion for the company's fiscal year that ended October 31, 2014.
- Apple claims 1 million payment cards were activated for Apple Pay within 72 hours of the company's launch.
- Over the past several years, according to Aite Group, credit and debit card fraud has been on the rise, reaching roughly 10 cents out of every \$100 transacted.
- Partially due to the lag in adoption of EMV, the U.S. has had a 70% increase in credit card fraud since 2007, while the U.K. has seen an 80% decrease after migrating to EMV.
- Javelin Strategy estimates that by the end of 2015, more than half (60%) of retail locations will be EMV capable.
- Deloitte reports that contactless transactions can be up to 25% faster than paying with cash. The speed and ease of the transaction can reduce time spent at the POS by 77%.

No doubt the statistics boggle the mind, and leave even the most technology savvy business owner with more questions than answers. The EMV liability shift is looming, and SMBs are grappling with what it means to be compliant. Meanwhile, they're on the hook to satiate savvy shoppers by supporting a baffling amount of progressive payments platforms. That's where you come in. Your customers are depending on you to sort through the hype, and guide them in the right direction. Within the following pages, executives from Datacap, Merchant Warehouse and ScanSource discuss today's payment processing challenges, and offer pointed advice for solution providers. All agree, now is the time to prove your worth as a trusted advisor. Payment processing solutions offer fertile ground to sell, support and grow your business. Your gardening tools just need to be sharp, and ready.

Angela Diffly

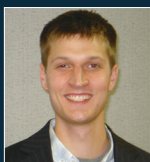
Editor, VSR Magazine



EXECUTIVE ROUNDTABLE

TRAPPED IN THE PAYMENTS MAZE?

Three industry leaders offer tangible tips leading SMBs through payment disruption and the EMV migration



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Payment technology is today's great disruptor. From consumers and merchants to banks and processors, everyone is trying to navigate the twists and turns of payment processing. For solution providers serving the SMB market, comprehensive knowledge of payments solutions is no longer a nice-to-have — it's required to help your customers keep up with rapid change. We sat down with Datacap Systems, Merchant Warehouse and ScanSource to talk about some of the hottest topics in payments today, including how solution providers can help SMBs through the EMV migration, the impact of a data breach, tokenization and more.

Q Unraveling the myriad of payments solutions for today's SMBs is a daunting task for anyone. What advice can you give solution providers for navigating the waters, and embracing what's possible today?

JUSTIN ZEIGLER: Simple — talk to your customers. Interview them, and establish pain

points so that you can pinpoint solution-related technologies. Would a mobile POS for pay-at-the-table be the best fit, or does a consumer-based mobile solution make more sense? Would end-to-end encryption address security concerns, or would tokenization for recurring payments provide more value? While this may seem obvious, we see many solution providers drowning in development, trying to keep pace with the industry instead of catering to specific customer demand. Once solution providers understand the pain points from their customer-base (existing and prospective), they can choose a payments provider offering the feature-set required, then tailor the solution accordingly.

RUSSELL HARTY: The ever-changing payments landscape means your customers need to keep pace, protect their businesses, and remain competitive. But with so many options available, your customers probably don't know where to begin when it comes to deploying the right solution. That's why it's more crucial now than ever before to be a trusted resource for your



customers. This begins with doing your research, educating your customers and prospects, and ultimately guiding them to the right solution. When working with a customer or prospect to evaluate new payment solutions, first, emphasize the shift to mobile payments. Especially with the release of Apple Pay, we'll see a major shift to mobile payments in the next several months. Explain the benefits of mobile payments and how they can capitalize on them now. Second, discuss the benefits of adopting NFC and EMV early. Shifting to EMV and NFC-ready payment solutions now will make it easier for your customers to adapt to the new technology before it becomes the norm. Additionally, accepting EMV before the deadline will ensure they remain secure and protected. Finally, explain the options and make recommendations. Provide your customers with multiple options, but be prepared to make a recommendation. For the best customer experience, we recommend consumer-facing devices that provide choice in payment types.

PAUL CONSTANTINE: Education is the best tool for resellers to be well prepared in helping their end-user customers se-

lect the best solutions. We believe resellers need to be able to articulate how the EMV mandates apply to their customers and how they can be prepared for them, as well as what makes the best solution. What will work for a small single location retailer is probably not going to be the best solution for a multi-chain environment. Resellers need to ensure they know what the different solutions are, and how to best address them.

Q In terms of EMV preparedness, what does a point-of-sale upgrade look like to the average SMB, and how can solution providers sell it smartly?

ZEIGLER: In most cases, upgrading to an EMV-enabled solution will require an update in the POS application and/or payment application, and on-site EMV-enabled hardware. The challenge is that at least initially, each card processor will support a limited number of EMV PIN Pad options for their specific platform, which will dictate to the merchants and their solution providers which devices they can install. Before making a hardware decision, the merchant must coordinate

with the provider to make sure the device is supported. Since the bulk of product development for EMV relates to interaction with the PIN pad, the update to the actual POS software should be relatively modest. However, that may depend on whether the POS solution provider uses a middleware provider to drive EMV payments, or opts to manage that activity on their own. In either case, the SMB and the dealer should be certain the POS system supports a broad range of payment processors so the merchant can select the options that best meet business needs. Due to the potential inability to move processors without changing out the EMV hardware, merchants may want to investigate whether those devices are available for rent for the duration of the contract to help avoid costly re-fits when changing processing relationships.

HARTY: For many SMBs, preparing for EMV will not require an upgrade to the POS software. That's because many EMV solutions are updated via a PIN pad or semi-integration. The POS system provider should already be working with the payments company to help enable EMV to the end-user set-up. Solution providers must become knowledgeable as payments consultants, learning about EMV hardware, various transaction types, security implications, and the fraud liability shift. By the end of 2015, an estimated 70% of credit cards and 40% of debit cards in the U.S. will support EMV. Solution providers should be helping their customers develop a detailed, time-sensitive EMV roadmap. This roadmap will outline steps to compliance by the time October 2015 rolls around. By having everything upgraded and ready to go ahead of time, solution providers can help ensure their customers' businesses are prepared to meet the requirements.

"In 2015, expect tokenization to evolve toward a more standardized offering that will accelerate adoption at the POS."

— JUSTIN ZEIGLER, DATACAP SYSTEMS, INC.



CONSTANTINE: Resellers will first want to confirm if the retailer already has EMV/NFC-ready terminals. A valuable first step for a reseller is to take a full inventory of what equipment the end user currently has and determine if it needs to be upgraded or replaced. If not, then the reseller must determine if the software applications will support new, upgraded terminals, while also considering the integration needed to work appropriately with new payment terminal hardware. Resellers also need to make sure they are educating the end-user on the solutions they choose and how they affect audit requirements.

Q We know from end-user research that the vast majority of SMBs are taking a “wait and see” approach to EMV. What should they be doing over the next six months, and how can solution providers help SMBs prepare?

ZEIGLER: In order to help SMBs prepare for EMV, solution providers need to understand the pragmatic realities and communicate those to their customers. First, the specs for supporting both credit- and debit-integrated EMV devices have only just become fully available, thus, developers have only recently begun development. Based on our broad Canadian EMV experience, the development process is more complex and processor certification takes significantly longer than standard payments, so expect delays in comprehensive EMV acceptance from most providers. Second, SMBs and solutions providers must be vigilant to make sure bankcard providers don’t ship stand-alone terminals for EMV. Not only is that a disservice to the SMB in terms of overall customer experience and

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— PAUL CONSTANTINE, SCANSOURCE POS AND BARCODE

efficiency, it completely negates the value proposition resellers provide to the SMB as it relates to payments services. Lastly, it’s important to understand the timing and implications of the EMV mandates. SMBs can still accept non-EMV card payments after October 2015. The merchant or their merchant acquirer will simply be liable if a fraudulent card is used at that location, meaning that they lose the money for that particular transaction. For merchants with very little card fraud, the cost to move to EMV will likely outweigh the benefits. Each merchant will have to make that assessment based on historical card fraud experience.

HARTY: With the deadline less than a year away, now is the time to stop putting the migration to EMV on the back burner. Over the next six months, it’s imperative to begin helping your customers develop and implement a roadmap for EMV adoption and standardization. Your clients will appreciate that you are proactively working

to protect their businesses, and you’ll reduce the influx of work that is sure to come closer to the deadline. It’s likely some of your customers don’t fully understand the implications of not complying with the EMV regulations. The next six months is an ideal time to educate and create urgency around the migration, helping your customers understand the real consequences of not adopting EMV-capable technologies. Put together a template that serves as the framework for an EMV roadmap. Include a basic migration strategy and a time-sensitive EMV checklist. Setting deadlines keeps the project moving, ensuring full compliance before the deadline. Use this template as the framework for building EMV roadmaps for clients, customizing the content for each customer.

CONSTANTINE: Resellers understand that it takes more than just purchasing a specific payment terminal to become EMV compliant, and they need to ensure end-user

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customers understand this as well. There is typically integration work that needs to be done in order for new terminals to operate in the existing POS environment. There have been enough adopters of EMV and enough security breaches in the market, that the tide is changing away from the “wait and see” approach. We are seeing a lot of resellers enter into the planning and exploration mode because of the dollars lost in security breaches.

Q Let’s talk about tokenization. What are the barriers to industry-wide acceptance, and how do you see tokenization taking shape in 2015?

ZEIGLER: Payment tokens are quickly becoming a ‘must-have’ for many merchants who require support for recurring payments or who simply don’t want to touch cardholder data, encrypted or not. However, tokenization is a bit fragmented in the industry today. Because each processor has (or will

soon have) its own proprietary tokenization service/format, merchants become locked into a processing relationship based on the token database that’s owned by the processor. This serves as a barrier to token adoption for merchants that want to maintain the ability to move between processing relationships. Until we see some standardization in token format and the availability of ubiquitous tokens (same token regardless of processor), many merchants will hesitate to pull the trigger on tokenization. In 2015, expect tokenization to evolve toward a more standardized offering that will accelerate adoption at the POS.

Q The National Cyber Security Alliance estimates that 70% of data breaches happen through small businesses, and 60% of those that are hit shut down within six months because they can’t survive the impact. What should solution providers be selling to safeguard against these threats?

CONSTANTINE: It’s important for resellers to work with best-of-breed vendors and software providers that have tested and proven solutions for their industries. Partnering with companies that will stand behind them if there is a security breach is also important. Resellers should ensure their customers understand PCI compliance, as well as the role they play in protecting their business.

ZEIGLER: As is the case with any newly available security feature and corresponding threat, merchants will generally look to their solution provider for education pertaining to options and associated ramifications for updated security measures. Solution providers should be educated on the individual merits of encryption, tokenization and upcoming EMV standards so that they can assume a consultative role for their customers. The availability of encrypted MSRs, support for various tokenization formats, and a go-forward plan for eventual EMV implementation is going to vary between point-of-sale packages, so providers will simply need to be educated on the security features available and relay that information to their customer base. In addition to the security features at the POS, basic merchant education is key to maintaining on-site data security. Solution providers should discuss best practices and set guidelines for merchants to maintain a secure network and working environment. If the merchant isn’t tech savvy, solution providers can offer third party network monitoring services that will guarantee ongoing network security – and will often pay residuals for merchant referrals. **VSR**