



Budgeting for the New Economy

"It is that time again and most of you should be either wrapping up or in the middle of budgeting for 2010.

No doubt, 2009 has been a tough year in the financial industry; the companies in payment processing are no exception. They have dealt with unusually high attrition rates. Failed and bankrupt businesses decreased spending and increased fraud and chargeback losses. And in addition to all of the above there are data breaches to prevent, cardholder rights bills being passed in the Senate and the introduction of interchange legislation on the hill.....

I am not sure that the great Houdini could have budgeted for what this year brought us... But remember "That which doesn't break us will make us stronger". With that thought in mind the direction of the 2010 budget doesn't need to be that of a "broke company" instead, that of a stronger company that is adapting to this new economy and placing its focus on the "known" versus the "un-known"

So what does that consist of?

KNOWN:

MasterCard and Visa volume has decreased an average of 14.32%(2Q 2008- 2Q 2009)*

MasterCard and Visa transactions have decreased an average of 5% (2Q 2008- 2Q 2009)*

With the recent mandates on the issuers and the delinquency at an all time high this trend is not changing anytime soon. Companies will have to budget realistically or even low in this category. However they should offset this deficiency with additional revenue they receive from "value added products" they will be offering.

KNOWN:

MasterCard and Visa debit volume has increased an average of 8.55% (2Q 2008 - 2Q 2009)*

MasterCard and Visa debit transactions have increased an average of 19.42% (2Q 2008 - 2Q 2009)*

As long as you have adequately priced your debit the above numbers are welcome. However if your staff can not support debit or you have not fully embraced this product as you would normal credit cards you could find yourself over budget due to high losses, unbalanced general ledgers, penalties from the networks and customer attrition due to poor customer support for the product.

Companies should evaluate the benefit of staffing and training for this product as it surpasses the credit card volumes and budget accordingly.

KNOWN:

Merchants are looking for more advanced payment processing solutions to assist them in continuing to grow their business.

Merchants are looking for ways to reduce their overhead and expenses

Companies need to offer services to help the merchant build revenue and bring in new customers as well as keeping the existing customer base. Additionally offer products that help them be more efficient and reduce expenses. (Inventory control, payroll, accounting and invoicing)

Merchant-service providers with proprietary software or hardware systems, such as integrated point-of-sale systems or Apple Inc., iPhone, Quick books applications can retain a relationship longer mainly due to the fact that the merchant now has other aspects of his business linked to the merchant account. If a company provides a "universal solution" it is easier for that merchant to move to any processor.

Depending on which approach you take the budget dollars could be minimal with the right partnership or substantial if building your own system. And both routes will take some research and marketing dollars to be included in the budget.

KNOWN:

- Merchant attrition historically has ranged from 0 to about 6 or 7 percent. However currently acquirers are experiencing 18 to 25 percent annual attrition. And out of those half are due to the merchants going out of business.**

Merchants going out of business cannot be controlled, however it can be forecasted. Based on the national statistics available on merchants that are filing bankruptcy. A comparison should be conducted on your portfolio. This can assist in identifying merchants with the same or similar attributes ..i.e. location of merchant, specific industry types, time in business. Based on what you identify you should be able to forecast the reduction in fee income and potential losses due to this fact.

Dollars need to be dedicated to creating or enhancing your retention program. Acquirers need to be pro-active analyzing your portfolio to identify the merchants you want to retain before they start looking. Offer incentives and be prepared to renegotiate pricing. By targeting specific merchants you are able to ensure that you are keeping a quality book of business. A merchant is less likely to leave if he is experiencing financial troubles assuming that he will not be approved elsewhere.

KNOWN:

- The industry has spent over \$2 billion dollars to meet PCI requirements yet according to the Data Breach Investigations Report the typical organization has met less than a third of the requirements

The cost of a data breach for a Level 4 merchant averages \$36,000 and can be as high as \$50,000 (or more). As the member you will be debited directly for association fees and penalties. It is up to you to collect directly from the merchant. Depending on the merchant this could become a large liability. Most companies are generating revenue from the vendor their merchants are using for scanning services. Therefore, a portion of that should be reserved in lieu of recognizing it as revenue.

Although PCI compliance for the merchants has typically been a revenue line item you may want to allocate some of this to ensure compliance amongst your merchant database. With data breaches at an all time high a company could lower the cost of the scanning service to the merchant that is already struggling. This builds the relationship as well as protecting your company from future liability.

You may also want to look at allocating dollars to migrate to "cloud computing" enabling you to reduce your company's exposure as well as internal IT costs. And if you are concerned about certain Third Party Service providers meeting the PCI compliance standards you need to budget accordingly to obtain a compliant vendor which may charge more.

It is just as important to plan for the improvement of the economy as it was to react quickly to the decline. You need to perform a "post mortem" of your reaction to 2008-2009.

- Were you in survival mode in 2009? Remember ... Survival strategies are not the same as Success strategies.
- Did revenue growth get put on the back burner causing your company to overlook new product opportunities or openings in emerging markets?
- Did you combine business units, realign teams and divest layers of management with careful thought or did you opt for the 15-20% cut across the board?
- How can you ensure that your company can remain competitive and deliver the services the industry will soon demand with these changes?
- Will it be necessary to open the aperture on your credit policies again to achieve marketing goals and if so are you adequately staffed to do so?

Depending on how you answered the above questions you may need to take a step back and refocus on your business plans and strategies. What items were in the works for 2009 budget that never got implemented? Are those items going to be a key element in your success going forward?

Take Charge business consulting can assist in the "re-grouping" process and assist your management team in "getting back on track" while continuing to focus on reducing working capital and improving cash flow. We provide a Company Cost Evaluation Service. This includes a complete review of your Budget, Overhead, process flows and portfolio revenue. We then provide your company with suggestions for immediate increased profitability to your bottom line as well as assisting your company to become more productive and efficient.

For more information about this service please feel free to visit our website at www.tcbconsultingonline.com

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*Source MasterCard and Visa/ ETA us economic indicators report

** Source Paul Martaus, president of Martaus & Associates

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