n>genuity JOURNAL

PAYMENTS INDUSTRY INSIGHTS
published by TSYS

Global Insights from the First International Acquiring Forum
Opportunities, obstacles, business models and bad guys in the global acquiring industry

By Thomas A. Layman, Linda Perry and Kevin Atwood

Electronic payments professionals from twenty countries recently participated in the first International Acquiring Forum (IAF). These specialists in merchant acquiring convened in London, U.K. to address the globalization of the merchant acquiring business and to recognize the importance of acquirers, payment service providers and processors in today's increasingly complex payments industry. Presentations centered on the realities of the international payments marketplace and the ensuing discussions revealed key themes regarding the international expansion of the acquiring industry.

Remaining relevant in the global economy

All acquirers, service providers and processors agreed that expanding their acquiring business beyond their local markets and domestic borders is extremely challenging and requires significant due diligence for success. The reality of today's payments marketplace is that the merchant acquiring business and all of the required support mechanisms must be global. Survival depends on the ability to remain competitive and innovative to meet a broad array of merchant and customer needs.

A focused business case

Not all acquirers and payment service providers will have the wherewithal to become global. For those that do, success will likely depend on execution of a strategy of either following existing customers internationally, or, , targeting opportunities to specialize as a niche player in key markets or channels. It is essential to understand markets through in-depth studies of specific local markets and a broader geography for expansion opportunities.

The successful business plan must also take into full consideration the implications of and vagaries in payment scheme rules, and the myriad of local and international regulatory issues. The applicability of these mandates to the physical versus the virtual world vary considerably by brand, market and technology utilized. Successful acquirers have overcome many of these known and unexpected obstacles by employing the right resources – seeking advice from local, in-country experts and partners, and communicating openly with regulators and rule makers.

Partnering or Going it Alone

Acquirers attending the IAF identified two alternative primary models for global expansion: "Partnering" or "Going it Alone." In the former business model, choosing the right partner is, of course, essential. The "deal" must make business sense for both parties, not just one. Also, proper effort must be expended up front to define and agree on the terms of dissolution, as there is a significant probability that the relationship will end at some point.

Going it Alone can obviously provide increased control and avoid such messy endings, but it requires significantly greater investment of time and resources. Under either model, following existing customers into new markets can lead over time to an opportunity to compete for local customers as well. Rather than going it alone, merging with or purchasing a domestic acquirer, local processor or technology provider may offer the best alternative for some.

Another key theme associated with successful business models included developing appropriate third-party partnerships while employing proper technologies needed to grow a successful payments business.

The bad guys are always there

Another set of key themes surfacing at the IAF centered on the need for acquirers and processors expanding globally to be vigilant – if not cynical – about merchants and potential partners. Many "first-mover" acquirers who expanded internationally ahead of the competition learned about fraud the hard way, so vigilance is key.

Successful and profitable acquirers that conduct business in many countries monitor all activity 24/7 and react quickly to ensure early fraud detection, as well as compliance with payment scheme operating regulations and local/international regulatory requirements. Again, finding the right partners can help mitigate these challenges. Once established as an acquirer in a new market, embracing local incumbents and new payment types is also critical to acquiring players, as both competition and innovation in the payments space are intensifying.

Consumers' role

Paying attention to the competition on the supply side of acquiring is critical, but the truly successful international acquirers also understand and embrace the demand-side trends. Consumers and their payment patterns are changing as the Millennials take over from Generation X and the Baby Boomers, and as new payment technologies and modalities become the norm.

The "point of sale" is now the "point of contact," and leapfrogging traditional methods of commerce is common around the world. Today's consumers are rapidly embracing new payment options, but frustration – indeed, consumer "pay rage" – can arise when old and new technologies are not well-integrated.

Making the right decisions to support and implement the many options – from proprietary "bucks" programs offered by local merchants, to the many new technologies being employed in the mobile space (e.g., Visa's V.me, Monetise and Google wallet) – can be difficult using traditional and legacy hardware. However, the opportunities for substantial revenue growth and taking market share are real. With proper preparation and effective due diligence, acquirers who decide to plunge into the international arena could find extraordinary returns on their investment.

About the Authors

Thomas A. Layman, co-founder of the International Acquiring Forum, is the President and Founder of the Global Vision Group, an electronic payments consulting firm. Tom has more than 30 years of international and domestic experience in the financial services and electronic payments industry.

Linda S. Perry is co-founder of the International Acquiring Forum and has a strategic payments consulting practice that advises merchants, processors and acquiring companies. She also works with startups and entities engaged in acceptance in mobile and other new technologies.

Kevin Atwood, Senior Consultant with Global Vision Group and staff of the International Acquiring Forum, brings almost 30 years of experience domestically and internationally in the financial services and electronic payments industry to Global Vision Group. Kevin's career includes more than 20 years at Visa in various leadership capacities.