

## **Now is the Time to Embrace Payment Software**

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A few years ago, I was talking with George Wallner the founder of Hypercom, and he asked me the question - "Why do payment terminals exist?" I was surprised by the question, I had just sold GO Software, a company I started with the mission to displace payment terminals with PC software, and here was the founder of a major terminal manufacture asking me why their product dominated the small business market.

My answer was two fold:

1. Terminals are KISS "keep-it-simple-stupid"
2. Sales people make more money selling terminals than they do software.

I believe these statements were very true at the time; however, in this article I'm going to argue that things have changed and there is no better time than now to consider software as your payment solution and if you do, I'm going to show you how to make more money with software.

### **History**

In the early 1980s, VeriFone invented the now-ubiquitous payment terminal. VeriFone and others were successful in the market because they built a product that met the market's needs by being very easy-to-use and operate.

Perhaps more importantly, the terminal manufactures built an effective sales channel to sell and support terminals. This sales channel was highly motivated by financial gain from profits selling and/or leasing terminals. Do to our complicated industry and understanding of market dynamics, payment terminals did not show up in office supply stores, so merchants never know what they really cost. The sales channels, being the entrepreneurs they are, were able to take advantage of this and sell/lease terminals at what ever the market would bear and allot of people made allot of money.

After I started GO software in the early 1990's, I knew I had my challenges when I visited a local computer store, an ideal candidate for PC based processing software, and even they were using a payment terminal. I asked the owner why he was using a terminal and how much he paid. He told me he was on a lease for around \$60/month and he never even knew PC payment software existed.

### **Software**

Let's categorize software for a moment: I see it breaking down into three categories -- Fat Clients, Smart Clients and Thin Clients.

Fat Clients are traditional PC applications that are "all-encompassing." They have a database, local reports, etc. VeriFone's PC-Charge is an example of Fat Client payment software.

Smart Clients are a hybrid application. They use local resources and have a rich user interface ("UI") and use the internet used to exchange data with other systems. A key component of a Smart Client application is that it can operate online as well as offline. Two good examples of Smart Client applications are Microsoft Outlook and TPI's SmartPayments Client.

Thin Clients are online applications that run in Web browsers (Virtual Terminals). They act almost like they were standard PC applications stored on local hard drives -- but no installation is needed. TPI's SmartPayments Server is "gateway-on-disk" software that provides a browser-based UI with Virtual Terminal and Thin Client Web services Application Programming Interface (API).

## **KISS**

First of all, I think we all agree that software has evolved to become much more powerful and easier to sell, use and maintain but it is still more difficult than a terminal. Existing fat client software applications have more that can go wrong at the merchant location, thus they drive up support costs and since they store data at the merchant location are inherently less secure. I contend that as the Internet becomes more pervasive and reliable; the industry will transition to thinner and thinner clients, thus making software as easy-to-use as a browser.

Just about everyone surfs the Internet now and is comfortable using a browser. As software moves to a thin client model, it will ultimately become easier to maintain and support than fat client software or terminal applications – just think no more terminal downloads and software patches.

## **Show Me the Money**

Perhaps most important, you can now make more money offering software versus a payment terminal. Why?

First of all, the Internet has changed things. While payment terminals may not be in office supply stores they are on eBay and all over the internet. In a capitalist country markets are efficient. Consequently, this industry has become very competitive and not only do you have to compete against other ISOs down the street selling the exact same product; you also have to compete against everyone on the Internet.

Ten years ago \$60 per month terminal leases were commonplace, today it has dropped to 1/3 of that and is in the process of eventually dropping to zero (with the "Free Terminal" trend). The Free Terminal trend, which only began a little over a year ago, means salespeople no longer make more money selling hardware. In fact it's just the opposite. Now you can make more money selling or even giving away software because software is less expensive.

Why is it less expensive? Because terminal have become a true cost that can no longer be passed on to the merchant. Put it another way, terminals are part of the cost of sale rather than a revenue stream like it used to be.

If you are in the business of selling merchant service processing, it is in your interest to find the lowest cost enabling technology and if you get additional benefits that is an even bigger plus.

### **Software to the Rescue**

Software is and will always be less expensive than hardware. With PC software you are able to piggy back off the PC that the merchant already owns and leverage the Internet connection they have for e-mail. With software, once it is developed your variable cost are minimal versus hardware where you have physical costs to manufacture and ship the equipment. Therefore, if you are just looking to enable a merchant to process credit cards, your lowest cost solution is going to be software.

The functionality of software is also far superior to that of a terminal because you are running on a more powerful PC. Imagine being able to sell a merchant another product such as gift/loyalty or adding functionality like recurring billing without having to deal with memory limitations and downloads. Furthermore, if you are using thin client technology you can just turn the functionality on at the host and see the new revenue start rolling in.

### **Differentiation**

Standard software can be private labeled so it looks like your unique product. Unlike terminals, where everyone is selling the same boxes, with software you can create your own version with your unique brand and logo. You are no longer competing with the guy down the street with the same terminal.

One of my theories on the Internet is "branded products move to the lowest cost seller". Once the product you are selling has a known brand, it is viewed as indistinguishable in the buyer's eyes so it turns into a price game, and competing purely on price is not where you want to be. If you sell branded products, you end up spending your time educating the customer on a product that they can go find on the Internet for less money. The risk is they purchase the product from

someone else for less money; they can sell it for less because you just sold the product for them.

Private label software protects you from having to compete on price and makes your product unique in the eyes of the merchant.

### **Grow your Markets**

Software is inherently more flexible, so you can grow your market opportunities with the same software. For example, we have ISOs who have purchased our SmartPayments Server “Gateway-on-Disk” software and use it to target many markets that traditional terminals are unable to serve:

1. Software – Virtual Terminal
2. Terminals – Dial, Wireless, IP Terminals, Pay-at-Table, Kiosk, PDA/cell phones
3. Integrated Solutions – PC Point-of-Sale systems like Microsoft’s Retail Management System (RMS) and Intuit’s QuickBooks Accounting
4. Industries – Retail, Restaurant, MOTO, e-Commerce, Petroleum

### **Reduce Churn with Lock in**

Integrated solutions lock customers in to your offering. I once had an ISO tell me if they walked into a business and saw they had a PC point-of-sale system they walked right out the door. He said, “There is no way I’m going to get them to switch their business processes to save a few pennies per transaction”.

Our software works with most PC POS applications including Microsoft’s Retail Management System (RMS) & Intuit’s QuickBooks Accounting. Rather than walk away from these deals, you can partner with POS dealers and turn them into your sales channel. You may have to revenue share with them but, think of them as your sub ISO. If you form the right partnerships, your cost of sales will drop and you will be the one locking customers to your services. In addition, integrated solutions are sticky and have much higher volume which translates into much higher revenue for you.

Furthermore, private label software can be easily configured to only work with your merchant services. You can make it part of the license/sales agreement that they can only use this software with your services but it does not hurt to disable switching in the software, just in case.

### **Conclusion**

I hope I have convinced you that times have changed and now it is the time to embrace software as your primary payment solution. With software, it cost less,

helps you stand out from the crowd, helps you grow your markets, reduces churn and most importantly you can now make more money with software.

*Bill Pittman is President of TPI Software, LLC ([www.TPISoft.com](http://www.TPISoft.com)), which helps resellers of financial services target new markets and grow their customer base with high value payment software solutions.*