TOTAL COST OF ACCEPTANCE
What should you look to take away from today’s session?

A view of the key factors that drive the value of payment acceptance and their interdependencies – with the hope that it helps you drive positive payments-related change in your organizations.
## What Constitutes Cost of Acceptance:

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What is the total cost of acceptance?

Merchants must consider the total **VALUE** of acceptance rather than solely cost.
Lesson 1: Customer Experience & Risk

- Data Entry Friction
- Digital Wallets
- Encryption
- Preferred Payment Methods
- Tokenization
- Resiliency
- PCI Compliance
- Loss Prevention
- Payment Gateway/Switch
- Internal/External Hosted Systems
- Store Architecture
- Multiple Processing Connections
- Single/Multiple Acquirers
- Interchange Management
- Risk
- Debit Routing
- Improving Qualifications
- Branded Credit
- Stored Value (Gift)
- ACH
- Reconciliation
- Authorization Rates & Approvals
- Health Status & Monitoring
- Chargebacks
- Compliance Management
- Fraud
- Availability of Payments
- Speed of Service
- Customer Experience
- Risk

Corporate & Store Operations
Payment Programs & Alternative Payments
Acquirer Contracting
Fees
Technology

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Customer Experience
Customer Experience: Overview

Why do we factor Customer Experience into the total value of payment acceptance?

- Changes to reduce costs can potentially negatively impact the buying experience
- Negative impacts on the buying experience can result in reduced conversion rates
- Merchants must weigh the different customer experience options vs ROI for such programs

What aspects of Customer Experience are considered when evaluating the value of payment acceptance?

- Availability of Payments
- Speed of Service
- Data Entry Friction
- Digital Wallets
- Preferred Payment Methods
Customer Experience: Key Considerations

Examples of how Customer Experience can impact and be impacted by other areas:

- **Risk**
  - Availability of Payments

- **Technology**
  - Availability of Payments

- **Operations**
  - Authorization Rates

- **Payment Programs**
  - Data Entry Friction

- **Fees**
  - Speed of Service

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Generally, payment-related changes with Customer Experience in mind do not directly affect the cost of payment acceptance.

However, merchants must thoroughly A/B test payment-related changes to ensure they do not negatively impact customers’ experiences.
Risk
Risk: Overview

Why do we factor Risk into the total value of payment acceptance?

- Payments represent tremendous levels of risk exposure to brands.
- Improper management of these risks can lead to payment outages, breaches, fraud...

What aspects of Risk are considered when evaluating the value of payment acceptance?

- Encryption
- Tokenization
- Payment System Resiliency
- PCI Compliance
- Loss Prevention
Risk: Key Considerations

Examples of how Risk can impact and be impacted by other areas:

- Customer Experience: Availability of Payments
- Technology: Multiple Processing Connections
- Operations: Labor Costs
- Payment Programs: Tokenization (multiple options available)
- Fees: Acquirer Fees
When properly implemented, tokenization and encryption can substantially reduce the risk and PCI scope associated with handling cardholder data.

However, when implementing such controls, merchants must ensure that the resiliencies of their payment systems are still sound – else they risk outages.
Lesson 2: Technology and Operations

- Customer Experience
- Risk
- Technology
- Fees
- Corporate & Store Operations

- Acquirer Contracting
- Single/Multiple Acquirers
- Interchange Management
- Network Agreements
- Risk
- Debit Routing
- Improving Qualifications
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- Store Architecture
- Multiple Processing Connections

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Technology
Technology: Overview

Why do we factor Technology into the total value of payment acceptance?

- The ability to sell goods and services is all underpinned by the associated technology in order to service the end customer.
- The addition of new technology services is required for business to gain market share, stay competitive, and directly correlates to the total value of commerce acceptance.

What aspects of Technology are considered when evaluating the value of payment acceptance?

- Hosting
- Payment Gateway/Switch
- Store Architecture
- Multiple Processing Connections
- Fraud
Technology: Key Considerations

Examples of how Technology can impact and be impacted by other areas:

- **Customer Experience**
  - Preferred Payment Methods

- **Risk**
  - PCI Compliance

- **Operations**
  - Health Status and Monitoring

- **Payment Programs**
  - 3rd Party Programs

- **Fees**
  - Provider Fees
Technology is changing rapidly. Change must be evaluated for ROI, since not every technology meets the business needs for individual merchants.

The addition of new technologies will increase the total cost of acceptance; however, the ROI that each technology provides will counter this and should drive the top line revenue.

Merchants must make decisions on the operating model for their technology stack. Outsourced vs. internal is neither better nor worse – it depends on the company profile.
Corporate & Store Operations
Operations: Overview

Why do we factor Operations into the total value of payment acceptance?

- Companies must have excellent operations and processes, factoring in human labor aspects, in order to provide valuable goods and services to consumers.
- Operating models can be internal, outsourced, or a combination of both. Inefficient operating models can increase the bottom line and reduce profitability.

What aspects of Operations are considered when evaluating the value of payment acceptance?

- Reconciliation
- Chargeback/Compliance Management
- Authorization Rates
- System Health Monitoring
# Operations: Key Considerations

Examples of how Operations can impact and be impacted by other areas:

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Operations is the front line for exceptional consumer experience and value customers identify with while shopping in-store or online.

Through operational monitoring, the proactive identification of issues will help limit customer impact and reduce increased fees through chargebacks and/or additional fines.

New data privacy regulations will cause new operational processes that will involve the collaboration of many operational teams.
Fees
Fees: Overview

**Why do we factor Fees into the total value of payment acceptance?**

- In prior sections, we discussed how customer experience and payment acceptance infrastructure influence the total cost of acceptance.
- Processing fees, the actual fees paid to third parties, represent a significant cost to business. As payment card acceptance grows, processing fees grow. The continued migration to electronic forms of payment results in an absolute increase in payment processing fees.

**What aspects of Operations are considered when evaluating the value of payment acceptance?**

- Acquirer Fees
- Interchange Qualification & Misc. Fees
- Other Payment Types
Fees: Key Considerations

Examples of how Fees can impact and be impacted by other areas:

- **Customer Experience**: Card Not Present
- **Risk**: Acquirer Reliance
- **Technology**: Payment Form Factors
- **Operations**: Service & Routing Agreements
- **Payment Programs**: Payment Methods Accepted
Fees: Conclusion

- Merchants should regularly review acquirer performance and fees. Issue RFPs 18-24 months prior to contract expiration.

- Merchants should also take advantage of debit routing options to perform least cost routing and negotiate preferred acceptance agreements.

- Scale drives cost lower, however, reliance on a single vendor may not be optimal in accepting payments across all channels and at the desired service levels.
Payment Programs & Alternative Payments
Payment Programs: Overview

Why do we factor Payment Programs into the total value of payment acceptance?

- Encouraging the use of lower cost forms of payment can significantly lower the overall cost of acceptance.
- The economic benefits of the following payment methods will vary by merchant and by vertical, so they must be viewed in the context of the payment strategy.

What aspects of Payment Programs are considered when evaluating the value of payment acceptance?

- Branded Payment Programs
- Third Party Programs
Payment Programs: Key Considerations

Examples of how Fees can impact and be impacted by other areas:

- Customer Experience
  - Program Marketing
- Risk
  - Fraud
- Technology
  - Support Acceptance
- Operations
  - Process Execution
- Fees
  - Payment Method Costs
Encouraging acceptance of lower cost forms of payment, especially merchant-branded programs, can significantly reduce the cost of acceptance.

Branded programs must fit within the merchant’s overall payment strategy and be suitable for the: merchant vertical and acceptance environment (physical, digital commerce).

Low cost forms of payment should fit the merchant’s consumer value proposition with respect to offers, rebates, and discounts.
Lesson 4: What does this Mean?

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- Single/Multiple Acquirers
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What Does This Mean for Merchants?
How should merchants optimize acceptance?

1. **Customer Experience & Risk**
   - Merchants should be aware of how payment-related changes affect their customers, both positively and negatively.
   - Merchants should do their best to reduce PCI scope and handle cardholder data securely while maintaining system resiliency.

2. **Technology & Operations**
   - New technology will increase the total cost of acceptance but merchants should evaluate ROI, which will drive top line revenue.
   - Merchants should proactively identify and resolve customer impacts by working cross-operationally.

3. **Fees & Payment Programs**
   - Merchants should:
     - Engage in RFP acquirer processing agreements
     - Optimize debit costs with preferred routing agreements and least cost routing
     - Follow card brand rules to optimize interchange
     - Encourage lower cost payment methods

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Questions?

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Thank You