



TruShop Webinar

The Small Merchant Perspective

This report is based upon information we consider reliable, but its accuracy and completeness cannot be guaranteed. Information provided is not all inclusive. All information listed is as available. For internal use only. Reproducing or allowing reproduction or dissemination of any portion of this report externally for any purpose is strictly prohibited and may violate the intellectual property rights of The Strawhecker Group. © Copyright 2019. The Strawhecker Group ®. All Rights Reserved. DISCLAIMER: The Strawhecker Group (TSG) is not endorsed, sponsored by, or in any other way affiliated with the any companies or their logos illustrated in this presentation. The trademarks shown are registered and their own. This document has not been prepared, approved, or licensed by any entity displayed.



Payments Experts. Powerful Data.
THE STRAWHECKER GROUP®



Jared Drieling

Senior Director of Business Intelligence

Jared is a respected leader throughout the payments industry with 14 years of experience. As the Senior Director of Business Intelligence for TSG, Drieling is involved in a variety of strategic marketing initiatives, buy/sell-side advisory engagements, client project and consulting efforts, and business development across TSG's Analytics and Research division. As a payments industry thought leader, Drieling has presented at a wide range of industry, client and academic events, as an expert on the industry in emerging areas such as mobile payments, cloud-based POS systems, IoT payments and omnichannel strategies and has advised government entities, such as The White House, on industry public policy.



John Jakobe

Market Research Analyst

John has worked within payments industry for over 4 years. He focuses heavily on keeping the pulse of the payments industry and has personally contributed to numerous TSG research projects. He has developed an expertise in strategic ISV partnership and the payment centric point of sale ecosystem. John is also central in developing industry-first 'TruShop' and Independent Software Vendor (ISV) research projects. He has worked with some of the largest players in the payments industry and has an impressive portfolio projects.



Management Consulting

Full spectrum of advisory services within the Payments Industry



1,000+ clients advised, including many Fortune 500 companies

Analytical Platforms

Unparalleled data and metrics

- *Gateway Enterprise Metrics (GEM)*
- *Acquiring Industry Metrics (AIM)*



Data on 3.7+ million merchants in AIM. GEM has over 55% of all US gateway volume

Market Intelligence

Extensive primary and secondary research, unmatched in the payments industry



Mystery shopping, merchant surveys, vertical strategy playbooks and educational sessions

Buy/Sell Consulting

TSG's valuation process and transaction support can help in any situation



Assisted on 30+ acquisition/investment transactions and completed 200+ valuations



Trends



Merchant Acquiring Is An Industry Under Transformation

- Providing unified and secure payment choices for the ever changing SMB channel can be a formidable undertaking for merchant acquirers.
- As a result, the complicated landscape for multi-channel and omnichannel payments options has changed how payments are made. Barriers of buying have been minimized. Simply put, they are making buying easier for the buyer and selling easier for the seller.
- Acquirers must keep abreast of the needs of their clients and prospects.

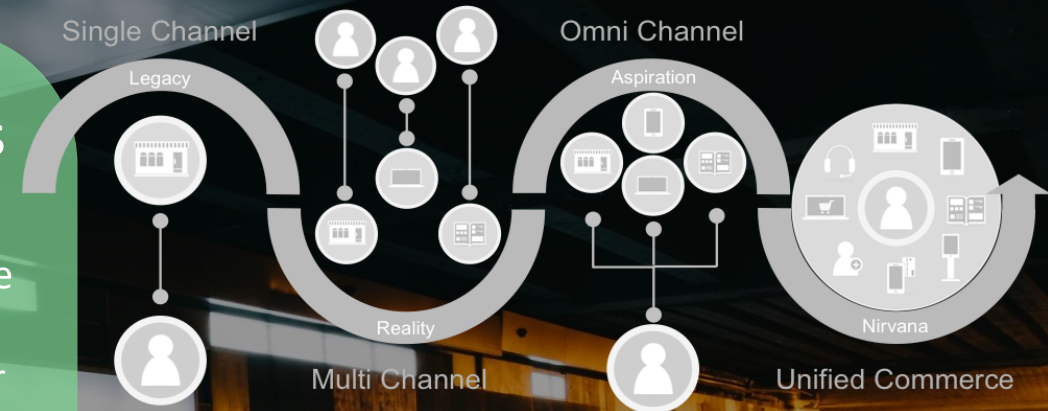




SMBs Need An Omnichannel Strategy To Open Doors To New Revenue Opportunities

The SMB market is poised to evolve quickly as smaller/medium merchants are investing in new hardware as well as new software solutions to help manage their business. These solutions were once only predominantly found in larger scale merchants and select industry verticals whereas now, SMBs expect providers to offer specialized solutions.

- *The effect of new technology players have created an ecosystem where overlapping relationships have resulted in a more complex marketplace*
- *Merchants are utilizing these solutions to provide consumers with increased access and convenience*
- *Merchants are focused on seamless presentment of products and services to increase sales*



Products and technology offerings that enable this experience is important. However, it's the implementation, sales and service of those products that craft and deliver the merchant experience.



A Sound Merchant Experience Is The Best Way To Help Merchants Capitalize On Innovations In Payments

- The complexity of the merchant onboarding process today is staggering.
- However, for many acquirers this can be a three to five day activity or much longer. Perhaps this wouldn't be a problem if SMBs had the patience to wait days to be approved and activated. But that is not the case.
- SMBs now expect immediate response, demanding the ability to sign up and be approved for cards acceptance in a few minutes just like end customers who can apply for a credit card and get instant approval.





Payment Processing Should Be Painless For Small Businesses

- Client-focused onboarding has become a strategic differentiator.
- Technology though, offers hope to the situation. Turning merchant onboarding into a business differentiator often requires going where the SMBs are. Today, they are everywhere, using the Web, mobile phones, tablets and other devices to do business.
- Today, acquirers have the capability to deliver a merchant onboarding experience that is timely, transparent and customer friendly. However acquirers first need to acknowledge an intent to change their existing business practices and systems by benchmarking themselves versus the leaders/innovators.





See your business and your partners through the eyes of the merchant

Evaluation and Testing

- TSG is capable of evaluating and testing several types of businesses and business partners:
 - Acquirers
 - Banks
 - Point of Sale
 - ISVs
 - Resellers
 - ISOs
 - Gateways
 - Shopping Carts



Merchant Perspective

- TSG can test various sales channels and initiate sales processes from the perspective of various merchants:
 - eCommerce Start-up
 - Restaurants
 - Retail
 - Hospitality
 - Salon
 - Fitness
 - Healthcare
 - Education



Insights

- TSG will evaluate the capabilities, services, responsiveness and overall perceptions through the eyes of a merchant:
 - Customer Service
 - Risk/Underwriting
 - Integration
 - On Boarding Processes
 - Application Processes
 - Overall Merchant Experience
 - Product Features/Capabilities
 - Social Media Tracking





TRUSHOP SMB ACQUIRING TRENDS

SMB Retail Stationary Store (MCC 5111)

Merchant Volume Statistics

- Annual Volume - \$120,000
- Monthly Volume - \$10,000
- Average Transaction - \$80.00

Top Requirements

- Inventory Management
- Integrated POS
- Cloud Based Reporting
- Dedicated Merchant Training/Activation
- UPC Scanning
- Offline Processing
- Same Day Funding/ Next Day Funding
- Rent/Leasing options for Hardware
- Security/Fraud
- eCommerce Support
- Cancelation Fee Assistance
- Marketing Tools
- Invoicing Tools

Current System

- Merchant Acquirer – Legacy Provider
- Point of Sale – Vend POS
- Accounting Software – QuickBooks



This merchant is a single location brick and mortar retail store that specializes in stationary supplies and services. A majority of revenue is derived from wedding invitations and other wedding based supplies. Due to the custom nature of the inventory, the desired POS must be flexible enough to support the ever changing inventory and supplies. Above all else, the POS must be simple to use and function at all times.

This merchant is currently utilizing the Vend virtual terminal POS system which does not integrate with its current processor. This makes tracking inventory and sales difficult. The sales process is manual, and inventory and sales often do not align. Having an integrated solution with a robust inventory system would be a huge upgrade to the business.

Current marketing is done solely through social media and email blasts. Bringing these tools together into a single system would also go a long way for this merchant. All transactions are currently done face to face, but assistance in building an eCommerce platform is an attractive feature.

Lastly, pricing was a major consideration for this merchant, improving the bottom line in anyway possible is always a priority. Finding the best deal on processing/POS is a big factor.



TRUSHOP SMB ACQUIRING TRENDS

TruShop

A Product by The Strawhecker Group

SMB ACQUIRING TRENDS



Simplicity



Transparency



Consolidation



TSG's research and thought leadership has been featured in





Onboarding

Onboarding is perhaps the area that has changed the most over the past few years. The implementation of automatic onboarding processes has sped up the application, underwriting, and approval process for merchants. The proliferation of the digital sales channel has allowed for SMB merchants specifically to bypass traditional hurdles to acceptance. The relaxation of underwriting spurred by the improvement of verification and risk monitoring tools has also positively impacted the merchant experience for forward thinking acquirers.

The simplification of the sales process has also made buying POS solutions and other business management products as easy as purchasing an item from Amazon.



Simplicity



Transparency



Consolidation





Pricing

Anecdotally, TSG has observed an increase in fixed fee pricing. Many providers seem to be shifting towards fixed fee as a way to clarify pricing to their merchant base. Many merchants do not understand the intricacies of credit card pricing, and are often confused by the structure of cost plus pricing. Many providers are using fixed fee pricing to help ease this confusion.

TSG has also observed a decline in additional fees. Some providers have looked to combine all additional gateway, PCI, and security fees into one standard “service” fee, further simplifying the cost for easy merchant comprehension.



Simplicity



Transparency



Consolidation



Product & Partnerships

Over time both products and partnerships evolve and change. During this research, TSG has observed a substantial increase in both product and partnership development, both for the same reason.

Traditional acquirers are looking outside of their comfort-zone to provide products and services not typically offered by these types of companies. These forward thinking companies have simplified the merchant experience by providing all in one solutions for any type of business. By consolidating the products into a single package or offering, merchants no longer need to piece together their business management tools. With increased transparency and consolidation within pricing, merchants understand what their purchasing and the added services it includes. TSG has observed companies developing these additional products and partnering with 3rd party providers, both methods have proven to be effective providing that the integrations are seamless and pricing is singular and not split between two organizations.



Simplicity



Transparency



Consolidation





Case Studies











TruShop

A Product by The Strawhecker Group

Case Studies

Company	Sales Process	Days Until Application Received	Score
 Square	<ul style="list-style-type: none"> • Square's "Application" is done completely online and can be completed and approved within 5 minutes. • Once logged in, merchants can customize their setup and manage their entire account from the online portal, including purchasing point of sale hardware. 	Minutes	●
 Company	<ul style="list-style-type: none"> • Initiated phone call via direct sales line, representative collected basic merchant information and had to check with developers to see what POS options were available. • Representative informed TSG that they would be going to call back with the needed information (No callback was ever received). • TSG initiated another phone call approximately two business days later. A different representative answered the call, and was able to provide the relevant POS information. This representative was rather aggressive in the sales process, and quick to put down other providers. • The representative was able to provide a general quote, but a voided check was required before the application could be sent. • After the voided check was provided, the representative called back to request a SSN and DOB before the application was sent. 	6 Days	○

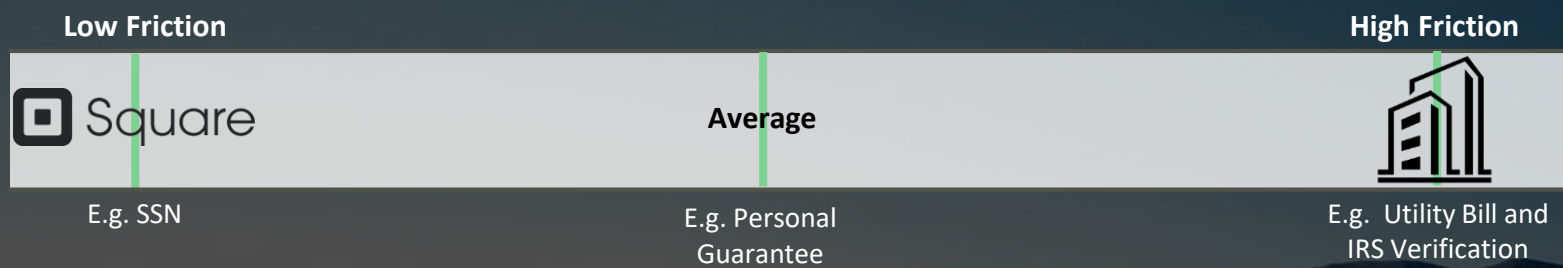
Company	Application	Notable Information Required	Score
	<ul style="list-style-type: none"> The Square application requires basic personal information and basic business information. The only sensitive information that is required is the bank account information, and last four of the SSN. The entire process is done entirely online and takes less than 5 minutes from start to approval. Hardware and eCommerce options are all available for purchase once account is approved. 	<p>Last Four of SSN</p> <p>Banking Information</p>	
 Company	<ul style="list-style-type: none"> Application was sent as PDF document that could not be electronically signed or edited. Which means the application had to be printed and filled out by hand. The application itself was 10 pages long and included fees and additional costs that were not disclosed during the sale process. The application included some pre-filled information (SSN, DOB, Banking Information) but required general information that was collected during the first phone call. The application also required a utility bill for proof of address and a letter from the IRS stating the EIN (simply providing it was not sufficient). 	<p>Full SSN</p> <p>Voided Check</p> <p>Utility Bill</p> <p>IRS Document</p>	

Company	Website Costs	Gateway Costs	Processing Costs (Online)	Processing Costs (In Store)	Other Fees	POS System Includes Hardware & Software Costs	Score
 Square	\$0 – No Fee	\$0 – No Fee	Flat Fee: 2.9% + 0.30 per transaction	Flat Fee: 2.75% per transaction	\$0 – No Fee	~\$1,000 – Hardware Basic Software - Free	
 Company	Third Party: \$29/month	\$10.00/month	Flat Fee: 2.9% + 0.30 per transaction	Flat Fee: 2.3% + 0.10 per transaction	\$5/month Account Fee \$7.95/month PCI Fee \$4.95/month Support Fee \$75 One Time Setup Fee	~\$800 – Hardware \$50/month - Software	

Based on the findings from TSG’s mystery shopping exercise, below are three tangible performance metrics. All charts are representative of the sample and are not all inclusive.

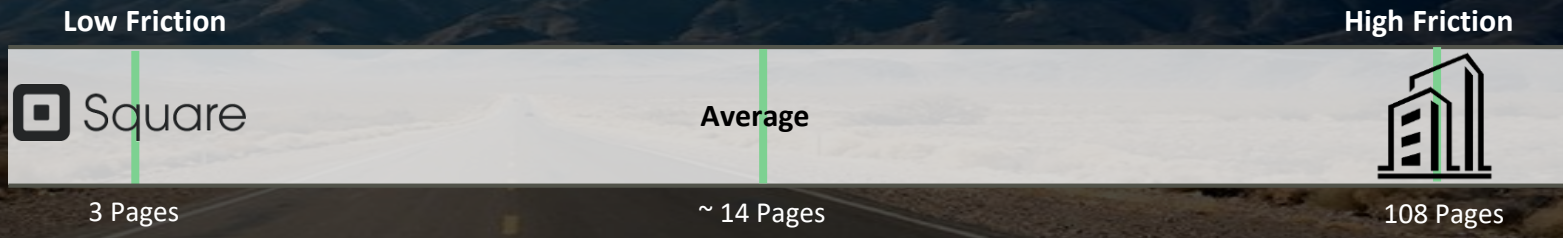
Risk Sensitivity

The measure of complexity for items required for underwriting purposes.



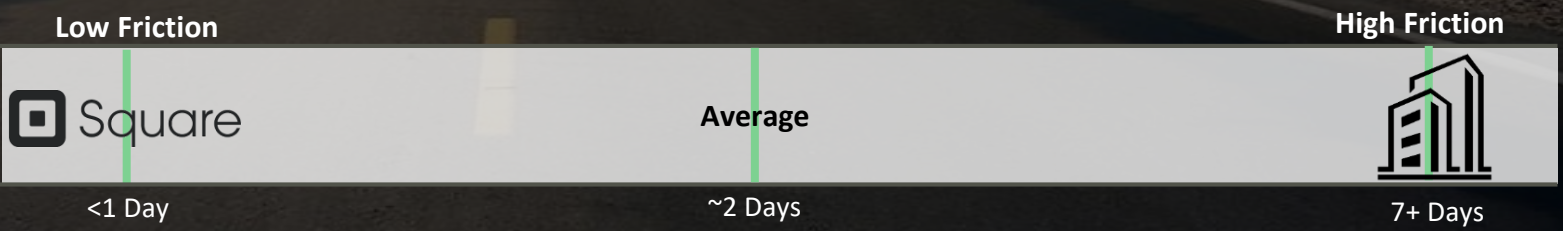
Average Application Length

The average number of pages in the application provided by each merchant acquirer.



Average Days Until Application was Received

The average number of days to receive the application from each merchant acquirer.





THANK YOU

Questions about TruShop? Contact

Jared Drieling: Jdrieling@TheStrawGroup.com

OR

John Jakobe: Jjakobe@TheStrawGroup.com



This report is based upon information we consider reliable, but its accuracy and completeness cannot be guaranteed. Information provided is not all inclusive. All information listed is as available. For internal use only. Reproducing or allowing reproduction or dissemination of any portion of this report externally for any purpose is strictly prohibited and may violate the intellectual property rights of The Strawhecker Group. © Copyright 2019. The Strawhecker Group®. All Rights Reserved. DISCLAIMER: The Strawhecker Group (TSG) is not endorsed, sponsored by, or in any other way affiliated with the any companies or their logos illustrated in this presentation. The trademarks shown are registered and their own. This document has not been prepared, approved, or licensed by any entity displayed.

t/g Payments Experts. Powerful Data.
THE STRAWHECKER GROUP®