

The Point of Contact(less) ISOs Tap New Opportunities With Contactless

Contactless payments are changing the landscape of the payments arena and ISOs are eager to collect their piece of the profit. Large-scale terminal rollouts have hit several major metropolitan areas and industry experts are reporting that consumers in those markets are riding the contactless wave, becoming familiar with the technology and using it for payments.

While there are an estimated 12 million contactless cards issued in the U.S. according to ISO&Agent's sister publication, Card Technology, most of those cards are concentrated in a few densely populated areas. They include the New York metropolitan area, Atlanta, Philadelphia, Denver, Dallas and Orlando.

New York is one of the hottest spots for contactless acceptance according to Oleg Fier, CEO and president of Acies, Inc., a New York City-based ISO. Most of those are tap-and-go "blink" credit cards issued by JPMorgan Chase, but there are also contactless debit cards issued by HSBC and keyfobs with contactless chips issued by Citibank to some 20,000 debit cardholders.

Contactless cards use radio signals to send data to compatible terminals, so that all a consumer needs to do is wave their card or keyfob within about an inch or a terminal, though many find it easier to just tap the card or fob on the device to complete the purchase. The transaction takes a fraction of a second, and contactless is being touted as ideal for locations where speed and convenience is paramount, such as fast food restaurants, convenience stores and drug stores.

Many say ISOs' best contactless sales strategy is to trek to the cities where major issuers are introducing contactless products and catch the windfall. Once there, they can visit fringe merchants and smaller retailers who haven't been sold on the technology quite yet.

"Look for the tipping point of cards in the community, and merchant awareness," says Mark Dunn, president of Hartland, Wis.-based Field Guide Enterprises. There won't be interest in contactless payments if customers don't have contactless cards, he says.

There are two types of contactless readers available: peripherals that plug into existing point-of-sale terminals, and integrated readers that replace traditional point-of-sale terminals and offer both the conventional magnetic stripe- acceptance as well as the contactless feature. ISOs can offer either type of reader.

The peripherals usually cost around \$150.00 according to Firer.

The low price may be an incentive for merchants. Santa Clara, Calif., ViVotech, one of the largest major contactless terminal manufacturers reported it has shipped 125,000 readers to the U.S. as of March this year. Other providers of contactless readers include OTI America and Panasonic. Some of the major POS terminal vendors are offering integrated terminals containing contactless reader modules.

A big advantage of the way contactless payments are being handled in the U.S. is that they do not require significant changes to the payment networks of merchants or acquirers. Essentially, the contactless transaction is simply transmitting the same data as in a magnetic stripe payment, just in a different way.

The relatively low cost to implement contactless lowers the barrier for merchants. But they still have to have a reason to do it. Speed is usually the reason.

"Blimpie (Subs and Salads) asked us if they should go contactless," said, James Marchese, Executive Vice President of IRN Payment Systems a Westbury, N.Y.-based ISO, "Our answer was yes for many reasons."

Anytime, you have a merchant with a small window of business, such as two hours for lunch like Blimpie, the reduced payment times and increased convenience of contactless payments makes sense, Marchese says. There is also the added value of gift cards and loyalty programs, he says. Loyalty programs being considered are rewards where customers might receive a free sandwich or soda after a certain number of purchases.

Blimpie Northeast already uses IRN for traditional card-based payments and Marchese says the sandwich shop is in the process rolling out contactless payments at HOW MANY? Blimpie locations throughout the Northeast. Marchese can't say how many because they haven't informed the franchises yet. They also have not decided on what kinds of loyalty program they will implement.

Coffee houses and other fast food joints that usually deal with a lot of cash are ideal places for contactless payments Marchese says.

Marchese cites his recent purchase of a Starbucks coffee with a fifty-dollar bill.

"It literally took twelve minutes for the clerk to make change and count it out," Marchese says, "She had to get her manager's approval and by the time I

left, there was a long line of twelve angry New Yorkers behind me.”

Some ISOs, are offering competitive plans and free contactless readers with terminals. Acies is using this approach, giving away terminals to merchants through agents.

Acies, which sells payment acceptance directly and through sales forces, says it has installed readers in hundreds of New York locations including several Subway and Quiznos sandwich stores, 12 World of Nuts and Ice Cream stores, and several other independent quick-serve restaurants, such as Bagel Deluxe Café. “We want to change the world with fast, contactless payments,” Acies’ Firer says.

While speed is generally an attractive sale point for contactless, some claim it is cheaper as well, especially for merchants that until now have dealt only in cash.

“It costs 2% more to handle cash than to process a contactless payment,” said Tom Mizejeski, vice president of research for Raritan, N.J.-based Pelorus Group. This estimate includes the labor costs of cash, which includes making change and counting bills at the end of the day.

The card organizations promoting contactless say they have seen the tap-and-go cards speed up payments significantly.

American Express says ExpressPay is 53% faster than a traditional card when no signature is required and 63% faster than cash. Visa trials showed their contactless card transactions were 25% faster than cash. MasterCard PayPass trials showed an increase in transaction amounts and 12 to 18 second reductions in payment times for drive-thru transactions.

Boston-based Aite Group reports that CVS, the drug store chain, has found the average contactless transaction takes 12.5 seconds, versus 26.7 seconds for magnetic-stripe card payments and 33.7 seconds for a cash transaction.

With contactless payments, we no longer have to sell by price,” said Lennox Armstrong, a sales executive with Cynergy Data, a merchant acquirer in New York City, “It’s all about convenience, time, and speed in New York where everything is go, go, go. When the merchants see contactless in action, they want it.” Armstrong says his company is working on implementing contactless with a chain of parking garages.

Convenience stores appear to be a natural for contactless payments, contactless readers are being installed in 5,300 7-Eleven stores and 350 Sheetz c-stores. WaWa markets is installing over 2,000 readers in its 540 stores cobranded with a credit card and loyalty program.

There have also been several pilot contactless programs in sports stadiums. The San Francisco Giants teamed up with Visa Contactless for concession sales at AT&T Park. Fans of the Washington Redskins, Seattle Seahawks, Baltimore Ravens, and Philadelphia

Eagles can all pay with MasterCard’s contactless PayPass product.

However, for the mom and pop merchants who are the ISO’s typical customer, the revenue from contactless transactions may not be high, some observers say.

That is because quick purchases typically aren’t big purchases. And, depending on the processing package, a merchant may find contactless fees eats into a healthy chunk of their profit, says Jeff Lenard, communications director at the National Association of Convenience Stores in Alexandria, Va. “The last thing in our business you want to see is a line,” Lenard says. But, he adds, “We are concerned however about the impact of the credit usage and fees.”

Lenard says profits could take a hit at small convenience stores when a customer taps a contactless credit card to buy low-cost items, such as a newspaper. The fees the ISO charges the merchant, typically a per-transaction fee plus a percentage of the purchase, could prove almost as costly as the item itself.

Acies’ Firer suggests if the merchant sells many small-ticket items, it may be more advantageous for an ISO to sell a percentage-only fee program. He says that it is important to understand the various plans available to see what plan works best for the merchant when selling a contactless program.

Meanwhile, card associations are working to further contactless penetration across all market sectors – large and small.

Visa says it has “an absolute commitment to assure success of contactless payments.” Visa, with four million Visa contactless cards in circulation, is providing collateral materials, online demos, and merchant support teams to help educate merchants a spokesperson for the association says.

MasterCard is also behind contactless and airing national commercials during popular television programs such as “Desperate Housewives” that show how contactless payments work. The MasterCard Web site lists merchants that accept contactless payments, demonstrates how their tap-and-go PayPass cards work, and shows their commercials.

Cynergy’s Armstrong says New Yorkers are becoming aware of contactless as a result of MasterCard PayPass commercials, Chase Blink events, and contactless PayPass trials in the New York subway system. More merchants are recognizing the value of accepting contactless cards and want what their neighbors have, he says. more attractive to merchants using other forms of data access, as well.

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