

TSYS Acquiring Solutions[®]

Executive Summary: Five Strategies to Impact Your Bottom Line

It has been a year of unprecedented financial challenges for retailers and their customers. This paper will describe five proven strategies to improve merchants' bottom line while strengthening their relationships with consumers. Based on our experience as a partner to merchants and retailers across the globe, TSYS[®] is presenting strategies that can improve your results as early as 2010. This report, demonstrates how to:

1> Simplify transaction management.

Merchants can reduce complexity and operational risks while controlling costs with technology that allows them to manage vendors at the point-of-sale and across multiple payment channels.

2> Drive new revenue streams with innovative products.

Deliver easy-to-use financial services products — remote capture deposit, reloadable debit cards and bill payment services — that attract new customers and enhance relationships with existing customers.

3> Deliver a better customer experience.

A growing number of customers are drawn to the power of self-service to deliver both new and existing programs, ranging from enhanced loyalty and coupon programs to direct service programs for financial services, such as real-time dispensing of gift cards.

4> Discover the benefits of loyal customers.

Whether you are new to rewards programs or a long-time veteran, Loyalty can give retailers front-of-wallet relevance with new ways to link program offers to purchases that improve profitability, including ways to elevate private label products or reward customers for buying higher margin products.

5> Take the surprise out of your processing costs.

The ability to reduce processing fees eludes most because businesses are not focused on critical factors — like costly downgrades — which erode monthly profits. Read about how TSYS delivered \$5.4 million in annual savings for one national retailer using industry best practices.

Not every retailer can profit from all of these strategies, but TSYS can help identify the best approaches to improve profitability.



1 > Simplify transaction management.

Technology has grown exponentially more powerful and customer-friendly while the point-of-sale has gotten more costly and complex.

From the humble beginnings of the traditional cash box, the checkout counter has grown more intricate and intelligent with every generation of technological advances from paper, to plastic, to virtual payments. Although the point-of-sale has evolved into a critical part of the retail enterprise DNA, most merchants are frustrated by their inability to gain control of costs and capture the data that flows through the checkout. Today the retail industry spends billions of dollars maintaining an aging network of hardware, scanners, terminals, computers, and software. This patchwork of technology is used to manage everything from payroll, workflow, and inventory to gift card issuance and the processing of payments. Despite all the technological advances that have taken place, the promise of simplifying the point-of-sale remains elusive.

With TSYS that promise becomes a reality. TSYS has been a pioneer in reducing the risk of innovation for over 25 years. Through our TransIT platform and suite of PASS products — CounterPASSSM, MobilePASSSM, KioskPASSSM and WebPASSSM — merchants and retailers can deliver cost-saving and revenue-generating payments applications across any network, using any payment device, at every type of point-of-sale. TSYS gives retailers more options while simplifying how they manage vendors and transaction flows.

From single merchants to franchise owners and specialty shops, retailers are demanding more from their investment in the point-of-sale. Retailers realize they must have control over critical functions like managing payment transactions, minimizing fraud risks, and staying a step ahead of data thieves. Retailers need the ability to manage customer data across all channels — in the store, online and in their call centers — to create lasting customer loyalty. Retailers want to find new fee-generating services that deliver convenience, draw customers into stores, and influence their behavior. From the multi-national big box retailers to neighborhood mom-and-pop shops, the opportunity has never been greater.

Consider the evolution of the corner gas station to a modern convenience store. A generation ago, the payment transactions at gas stations across the industry were largely cash-and-check based with the occasional carbon copy gas card receipt. The point-of-sale was simple: a metal box or a bank depository bag for receipts. In the 1990s, the point-of-sale shifted to the gas

pump and customers were drawn into stores for convenient pick-up items. Today, the point-of-sale can improve loyalty, influence customer behavior, and offer real-time inventory updates, management of a complex range of payment options, and delivery of wire transfers, cash dispensers and other banking services to time-starved consumers. This transition requires an average investment of nearly \$1 million per store and management of scores of vendors with up to a dozen processing partners.

TransIT, developed by Infonox[®], a TSYS company, addresses retailers' challenges in achieving cost efficiency and enhancing the customer experience. Until now, complicated and costly ad-hoc custom development and integration were the only options for retailers to transform the point-of-sale. Apart from the cost, the disruption to store's operations was a deterrent and the results were left in the hands of vendors who were often protecting their own interests. With the TransIT platform TSYS has changed the rules and taken the power away from vendors and put it in the hands of business owners. The TransIT platform is comprised of a number of unique offerings that serve as the building blocks of any successful business and match a merchant's strategy across any level of scalability.

The value can be seen in five key benefits:

- A host-based processing system that stores sensitive data at the host and not at the merchant location
- Control over vendors and the costs to route payments
- Flexibility to work across existing point-of-sale systems and networks to manage the cost of operations and reduce the risk of deployment
- Leverage to securely use transactional data to improve financial management or deliver customized loyalty solutions
- ROI mapped to the unique objectives of your strategy

In challenging times, retailers need to adopt an innovative philosophy to simultaneously manage costs and deliver a competitive advantage. Decisions made now can deliver sustainable gains across the enterprise or specific areas of operations in the future.

TransIT provides options for a diverse range of strategies. Perhaps some of these scenarios sound familiar:

cont. > Simplify transaction management.

- You are a growing retailer that is ready to graduate from terminal-based solutions.** As your business grows and you open more locations, you demand more than a counter-top terminal can offer. Yet the cost of moving to a specialized solution that is priced for your bigger competitors and supports a more complex system means less money for you to shift from operations to marketing in order to continue growing your business. CounterPASS may be your answer. This Web-enabled solution allows you to expand checkout capacity, speed up payments processing, and minimize the need for new vendor-controlled hardware. CounterPASS enables secure, high-speed Internet-based transaction processing through the TSYS payments gateway. A hosted solution is easy to use and intuitive to set up, allowing the retailer to automate batch processing and functional or compliance updates. Moreover, the platform includes a real-time dashboard of transactional activity that gives retailers true control over their cash flow with transparency across all of their payment providers. CounterPASS frees merchants from hardware- and vendor-specific solutions that require ongoing investment and disruptive upgrades as security and other standards evolve. The payback comes through rapid deployment, greater control over transaction processing costs, daily access to your cash flow, and no cost for upgrading functionality and maintenance of the hosted system.
- You want to turn foot traffic into revenue by giving consumers the ability to do more of their business while in the store.** Your consumers want more convenience and control in managing their retail experience. KioskPASS is easy to use and delivers the convenience and self-service that consumers demand. Whether you are an up-and-coming clothing retailer wanting to link your catalog and online business to the store, a quick-service restaurant wanting to speed up ordering and checkout, a specialty retailer looking to offer a gift registry or a thousand-SKU retailer wanting to better target special offers, coupons or buying clubs, a self-service strategy can be simple to execute. TransIT makes it possible to link existing hardware across conflicting back-end systems, without changing payments partners, giving you the ability to customize functionalities for individual shoppers. Whether at a free-standing kiosk or a simple Web interface through WebPASS, TransIT is proven to increase revenue and the average basket-size because it generally keeps the customer engaged longer. The self-service nature of KioskPASS makes store staffing more manageable. The kiosk and the Web allow loyalty or buying club members

to check in for unique offers designed to improve value for their next purchase. TransIT makes self-service scalable, whether through the Web interface or the kiosk.

- You want to turn real estate in your store into a revenue machine.** Convenience is one of the greatest assets a retailer can use to grow their business. Time-starved customers increasingly choose to shop at locations where they can accomplish more within a single trip. This trend started in the 1980s when the first bank branches were integrated into grocery stores and has grown in popularity as retailers capitalize on the opportunity to bring convenience to consumers and access to the unbanked. Until now, this strategic option has been largely available only to the biggest mass-market retailers. TransIT makes it possible for more merchants and retailers of all sizes to earn revenue from their retail space by giving customers access to a range of name brand, white glove services including: money transfer capabilities, gift card purchases, check cashing, bill payment, and cash advances. These services are only possible today by dealing with each vendor separately and then managing their unique integration demands. Like a true gateway, TransIT enables retailers to choose the products and partners that best fit their way of doing business. By taking the technology and operational risk out of the equation for the retailer, TSYS lets its customers focus on maximizing new revenue streams and delivering the convenience that consumers demand.

The scenarios are nearly limitless, but what matters most is utilizing the latest strategy to capitalize on the flexibility and control delivered by TransIT. Developing an action plan starts with clearly defining business needs and ranking priorities. Then, by using the consultative process that has made TSYS a leading global provider of payments solutions in the United States, TSYS helps identify a road map to execute a successful strategy. Next, TSYS works with a business to develop a budget that demonstrates how TransIT leverages the existing infrastructure. Finally, TSYS maps the hard and soft benefits that demonstrate the ROI every executive demands. Whether it is operational efficiency, gains through tighter control of cash, enhanced customer loyalty, or improved reporting and analysis, TSYS demonstrates the anticipated results.

Regardless of the strategy, TSYS can help develop and deliver a roadmap toward competitive advantage. There has never been a better time to take control and improve in-store operations.

2> Drive New Revenue Streams with New Payment and Bank Products.

Every retailer knows the “must-have” product or service that brings new customers through the door and drives repeat business. The list ranges from lottery tickets to milk.

Today, payment services are becoming the new “milk” — the must-have offering that consumers expect. A growing number of retailers are finding success by marketing a wide range of payment and banking-like products to attract customers and create new revenue streams. Here are some examples of this strategy:

- A deli operator in a competitive neighborhood offers ATM services that draw harried lunch-goers with the promise of eliminating an extra and inconvenient trip to the bank. As a result, the owner nets \$300 in extra profits each month from the ATM fees on top of the additional business.
- A popular grocery store chain discovers the power of kiosks that issue special electronic coupons funded by Consumer Packaged Goods providers to promote the grocer’s own, higher-margin private-label products. The program increases foot traffic, reduces the cost of managing coupons, dramatically increases the rate of coupon redemption, and helps lift the average basket size and gross margin by enticing more customers to purchase store brands.
- A convenience store operator adds money transfer products for a competitive flat rate and taps into a large pool of under-served customers who have passed his location for a check-cashing store that is miles out of their way. Not only does the chain make money on the money transfer business, this new group of loyal customers starts to buy other products and services from that retailer.
- A clothing retailer has a great brand but seems to be missing out on the lift that sales typically get in January and during the back-to-school rush. She adds her own brand of gift card — both on her Website and in the store — and discovers that her existing customers give an average \$50 on the card as a gift, which brings her new customers back an average of two times after receiving the gift for a special occasion or major holiday.
- A downtown gift shop once relied on selling snacks to hundreds of office-goers coming and going from nearby towers. Now they have discovered the power of bill payment as a convenient service to patrons as they come in to make payments of utilities, car loans and other must-haves that once required them to leave work and make multiple stops.

The shop owner gets new customers and revenue from the bill payment convenience fees and from repeat customers.

- A multi-lane retailer sees competitors profiting by selling customized gift cards for national branded retailers and from bankcard issuers. The store manager adds a “fourth wall” of cards that draws new customers, makes it easier for existing customers to pick up last minute gifts and generates new sales.

No matter what the scenario, merchants want the flexibility to add new products and services that attract new customers, provide convenient services to existing customers, and add new gross margin to their own store operations. In the past, this required relationships with separate vendors, costly proprietary hardware, and expertise for each new service. Some retailers even ended up with different point-of-sale devices, fax machines, or other hardware for each individual service.

The return on investment for adding complimentary products can be measured in two ways: increased traffic into stores and new margins from the sale of these products. Both objectives increase revenue per square foot for retailers, as payment products are increasingly becoming a destination product that attracts new and repeat customers. Beyond that, the sale of the products have their own attractive margins. Altamont Partners, a payments consultancy, found that an average store location that sells money orders or related services can add \$140 to \$400 per month in new margins per store. High-performing stores often double those figures.

TransIT eliminates cost and complexity. Today, a retailer can add new services by simply picking and choosing from a list of name-brand, blue chip vendors for each product type mentioned above. Furthermore, if retailers have existing relationships, they can simply manage them through the TransIT platform in a basic location without new hardware, without new complexity, and with a clear ability to track these new profit centers in real time through TransIT’s simple reports.

TSYS has made the strategy and the delivery of the new fee-generating products as easy as picking from a menu. It starts with understanding what products or services existing customers might appreciate as a convenient “other” reason to do business.

3> Deliver a Better Customer Experience.

Self-service is no longer a one-size-fits-all strategy.

Customers have always demanded convenience, and surveys show that many prefer the control that self-service delivers. But, in the past, the options were limited to traditional ATM services. Until now, the existing technology has been clunky and has lacked the flexibility to deliver a customized experience and a broader range of products and services. TSYS is committed to being a leader in delivering flexible solutions that generate competitive revenue on a per-square-foot basis. Through its array of technology options, TSYS delivers a broader range of money-making options for retailers. These include:

- **Gift card sales:** Kiosks can now deliver a multitude of custom gift card options. Self-service machines make it push-button simple for consumers to buy a retailer's own cards or to shop for other gift cards. The retailer wins every time a customer buys a gift card through basket lift or through fee income paid for selling the cards. Consumers love the convenience and choice delivered by the kiosk — dispensed gift cards generate \$300 to \$500 per month per store in new revenue and increase foot traffic.¹
- **Custom couponing strategies:** Customers love saving money, and kiosks can now deliver targeted, in-store offers that increase basket size before a customer leaves the store. This new generation of kiosks can also be linked to Web marketing strategies designed to draw the customers to stores and allow them to redeem special offers quickly. In addition to the obvious benefits of increased spending in stores, custom couponing programs are frequently funded by Consumer Packaged Goods providers.
- **Bill Payment Strategy:** A review of several industry studies show that as many as one third of all households still pay at least one critical bill in person and as many as half of all consumers say that they would pay a fee to ensure that their mortgage or car payment is made on time. That can mean driving to multiple locations to pay utilities and even credit card bills. Through kiosk-delivered services a retailer could offer one-stop management of all bills and give consumers the option to pay by check, cash, or credit card. Consumer studies show that bill-

paying customers cross the spectrum of household incomes, but they all value the convenience of a safe and reliable place to transact. In addition to bringing and returning customers to their stores, retailers also report \$250 to \$400 in monthly fee income from offering these third-party services.²

- **Reaching the underserved:** One in three households is underserved by traditional banking services. Now they can be reached with a kiosk that delivers a financial supermarket of choices. The underserved need to cash payroll checks, pay bills, reload prepaid cards, top-up prepaid phones, and more. Today, they may have to go to multiple locations and pay convenience fees. Retailers who choose this strategy win loyal customers and report fee income of \$325 to \$500 a month per store.³

Kiosk strategies are no longer limited to a single idea. TSYS works with retailers to define a custom strategy that enhances the customer experience, creates a competitive differentiator, and generates new revenue streams. Both unbanked and time-starved consumers embrace the services for their ease of use, the value that comes from the convenience, and the peace of mind from taking care of important financial transactions. Kiosk strategies today must be mapped to specific goals and revenue targets that deliver a return on investment. TSYS has built its platform around applications that are easy to deploy and require minimal maintenance. Beyond the kiosk, we offer technology options that connect to existing hardware, support consumer-not-present environments, connect existing in-store systems using an API, and enable retailers to push these services to any device. This flexible range of options minimizes technology risks and places the focus where it should be: on generating more revenue.

The space inside a store is valuable real estate and next generation self-service is a strategy worthy of the center aisle. Retailers who have high-volume foot traffic or who are geographically located in areas underserved by banks often have the strongest business case. Consider these real-world scenarios:

- As a late-comer to the gift card trade, a grocery store chain leapfrogs competitors with a kiosk that allows customers to choose from more than 500 name-brand cards and custom

¹ Source: Altamont Partners

² Source: Altamont Partners

³ Source: Altamont Partners

cont. > Deliver a Better Customer Experience.

print a card in minutes while they wait. Rather than a wall of plastic, this supermarket finds the appeal and ease of use of an attractive terminal that allows customers to get exactly what they want while never requiring the store to restock gift cards.

- A shopping mall operator surveys consumers and learns that a majority say that banking services are on their list of things they would like to see at the sprawling complex. Rather than recruit a single institution that narrowly appeals to only its customers, the mall opts for a self-service kiosk that allows multiple options — remote capture deposit, bill payment, reloadable gift cards, and money transfer.

- A convenience-store (c-store) chain realizes that it needs to revamp its stores with self-service in order to appeal to a younger market. The retailer opts for a multi-use strategy that puts an in-depth range of financial services, loyalty programs, and reloadable products on the terminals. By freeing up floor space and employee time, the C-store cuts costs and sees an increase in revenue per square foot as newfound customers frequent their locations.

In a challenging economy, financial services are an important competitive differentiator that attract a growing number of customers. TSYS offers a menu of turnkey products and services and can work with existing partners to simplify a self-service solution that delivers a robust ROI.

4> Discover the Benefits of Loyal Customers.

There is an art and a science to building a loyal customer base. Loyal customers spend more, buy more profitable products, and refer more friends.

Good retailers practice the art of loyalty by providing fantastic customer service and tailored customer experiences. Great retailers combine science with technology to harness the power of analytics in order to validate their observations. This allows them to more effectively target consumers.

There has been a proliferation of loyalty programs in the past decade. Industry studies show that Americans carry an average of 14 loyalty cards that offer everything from discounts and coupons to points that accumulate airline miles. Successful loyalty programs leverage the unique aspects of each retailer and can be linked to specific spending behavior like customer retention and acquisition or the desire to sell private-label products.

As loyalty programs gained popularity throughout this past decade, successful strategies favored only very large retailers who could afford the proprietary technology and scale of operations to support branded programs. TSYS has changed the rules. Through the TransIT platform, any retailer can easily set up and manage a point-of-sale loyalty program and customize offers — discounts, coupons, special trial offers, points, and more — designed to increase the frequency of shopping trips or reward consumers who buy more. Consider these success stories:

- **Driving Repeat Business and Cutting Discounting:** A pizza franchise has a good response to costly coupon offers, but doesn't appear to be winning repeat business despite rave reviews for their product. The chain implements a program that accumulates a cash-back reward that can only be spent in the restaurant after the customer has spent at least \$50. That program means the customer coming in once now has a reason to return three times to get \$5 off. Suddenly, business increases and the impact of deep discounts from coupons — often 25 percent or more — stops grinding away at the company's bottom-line.
- **Selling Private Label:** A pharmacy chain has good foot traffic, but wants to convert more customers to its own line of premium, store-brand beauty products. By running a SKU-level program, the retailer is able to make real-time offers to customers who buy name-brand products to encourage them to switch to the store brand. While overall spending does not significantly increase, the pharmacy is able to entice nearly one in five customers to buy its own brand, which has a profit margin of three times greater than name-brand beauty aids.
- **Members Only:** A sporting goods store wants to build better relationships with its customers and recognizes

that its patrons often spend their money in several locations. With a goal of capturing more wallet share, the store launches a program around specific sports that is bundled with an e-mail campaign. By asking each client to register and fill out their "wish list" of products, the retailer can promote pre-season and end-of-season offers as a private, members-only promotion to this select group of customers, including a rebate if they spend at least \$500. The result is a program that generates positive buzz, rewards customers for consolidating their budgets at a particular retail location, and reduces inventory clearance sales by proactively driving customers back before merchandise is discounted 50 to 70 percent.

- **Rewarding Referrals:** A chain of beauty spas is known for its luxurious service and high-touch customer service, but getting new and repeat business is always a challenge. Recognizing the power of word-of-mouth marketing, the spa creates a rewards program that gives every customer the option to sign and address up to five note cards with a \$50 gift card to be sent to their friends recommending the spa. In exchange, the customer receives \$100 to be spent over their next two visits. Given that the customer typically spends at least \$325 on a visit, the program is a runaway hit as customers return with their friends to spend more.

Each retailer has a unique strategy based on a customized loyalty program to drive desired behavior and profitability. The TransIT platform makes creating and managing multiple reward programs like these simple. But success begins with the merchant's plan, which should include the three cornerstones of any successful loyalty program:

- Rewarding spending behavior makes customers more profitable. These rewards could include frequency of visit, purchase of specific types of products or rewarding referrals.
- Rewarding at the moment of greatest impact increases loyalty. Some programs work best when points accumulate, while other programs are most effective at the point-of-sale.
- Keep it simple. Giving easy, targeted offers beats heavy discounts, minimizes paperwork, and always says, "thank you."

Ultimately, a loyalty strategy is most profitable when it is easy for consumers to see the benefit it offers and when it promotes specific purchase behavior that increases profitability. In the past, the point-of-sale has been an obstacle in bringing programs to market, but the TransIT platform simplifies that process and bridges consumer and merchant loyalty.

5> Take the Surprise Out of Your Processing Costs.

Everyone loves a good deal, and retailers and merchants are no different when it comes to wanting a better rate on their transaction processing. Various studies show merchants currently spend more on interchange than they do on labor. In fact, one industry analyst reports that Starbucks spends more on interchange than they do on coffee.

And there is no shortage of competitors who want their business. TSYS became one of the top processors in the United States with service to more than 1.2 million merchant locations by understanding how to deliver on the promise of a better bottom line.

While retailers may spend months negotiating to shave pennies off their cost-per-transaction, they may seem to notice that they never realize significant savings. The reason? Poor interchange qualification management can prevent them from getting the best rates on interchange. With more than 530 separate interchange rates, it is no wonder that savings are elusive or simply hard to quantify.

At TSYS, our goal is to deliver better cash flow for our clients by managing interchange to minimize downgrades. Downgrades occur when the payment network (Visa and MasterCard, for instance) determines that a transaction lacked the correct information to merit the lowest rate in the complex matrix of rates, which are updated twice a year. Consequently, double-digit basis points can be added on to the cost of the transaction as a penalty. TSYS estimates that the typical merchant may pay 10 to 13 basis points more in interchange than necessary. Spreading that over a month of transaction volume means interchange downgrades are costing retail businesses significant amounts of money.

By some estimates, customers' demand to pay with plastic has grown as fast as the cost of interchange fees. The value of interchange is that it allows a merchant to have real-time access to their cash flow through a system that greatly reduces fraud when compared to other forms of payments (checks and cash). And accepting credit cards generally brings in customers who might not have an option other than plastic to pay. But for those merchants who may be overpaying, the reasons may be as simple as poor checkout practices by clerks that cause routine transactions to be keyed in as more expensive card-not-present transactions, old equipment that doesn't have a PIN pad or does not allow for the capture of key data fields, and poor practices or indifference by the existing processor.

TSYS has a single platform for processing merchant transactions, which means that its systems provide a level

of transparency that allows TSYS to flag and manage exceptions that could otherwise increase interchange costs. Of the 10 million-plus transactions TSYS processes in a typical day, TSYS has fewer than 20 rejections for reasons that could lead to a costly downgrade for merchants. The TSYS advantage starts with the fact that as one of the largest payment services providers in the world, TSYS systems monitor merchant files for missing data and attempt to fill them in automatically. In a merchant's monthly statement, TSYS highlights upgrades and recommends strategies for reducing the costs. The TSYS difference comes down to four differentiators:

- TSYS supplements and validates crucial data before submitting the transaction to the issuer.
- TSYS pre-qualifies every transaction against the best possible interchange rate before submitting it and then passes on the exact rate.
- TSYS leverages its single platform by keeping it current on every association rate table at all times. Processors with multiple platforms are usually playing catch up at an added cost to their customers.
- TSYS provides tools and a consultative approach to help retailers improve their own front-line practices with the goal of reducing interchange costs.

In the case of one national gas retailer, the pay-off from TSYS' focus on savings has been significant. The chain switched from a competitor and realized a savings averaging 27 basis points on interchange — adding at least \$5.4 million a year to their bottom line. TSYS delivers these results by advising the retailer about how to reduce common errors that caused routine transactions to be classified as higher risk as well as advise them on multiple pricing fixes. The processor also used its proprietary database to back-fill missing fields of information, which also reduced the number of purchases that were processed at higher rates. Moreover, through its detailed reporting, TSYS was able to show the company its progress in reducing downgrades each month.

TSYS' pioneering approach to interchange management is a true competitive advantage for its clients. The company's investment in systems, controls, and reporting take the complexity out of the hundreds of pages of monthly statements.

TSYS INTERVIEW:

Setting Priorities, Targeting Your ROI

Every retailer and merchant wants to do more at the point-of-sale to maximize their revenue opportunities. Infonox's Chief Information Officer, Ashim Banerjee, has spent the last decade of his career listening to retailers and translating their needs into a flexible solution designed to reduce the complexity and risk of technology decisions in today's evolving retail environment. We interviewed Ashim to hear what he has learned from retailers who want more from their technology to meet revenue goals for 2010 and beyond. Here is what he had to say:

Throughout the past decade, you have been on the cutting edge of developing a software platform designed to take the pain out of the point-of-sale. What have you learned?

Ashim: Every day we hear a lot of frustration out there from the single store merchant to the largest chains. They've invested millions and still don't feel in control. They are caught between the familiarity of the legacy systems and the desire to innovate.

What's the answer?

Ashim: Our answer was to create the TransIT platform with a simple philosophy of giving a merchant or retailer the ability to manage the vendors they choose and to not have to replace their underlying technology or add new hardware every time they want to add new payments programs or transactional products. We've done this through a modular approach to design that gives the retailer control and transparency over what is actually happening in their stores.

What do retailers need?

Ashim: They need to get more out of the technology they have. They still need competitive advantage even when they don't have budgets for new systems. And they need to get a handle on vendors and applications. And, yes, they need to get a handle on PCI compliance.

What can TSYS do to help with PCI compliance?

Ashim: Through our hosted solutions, for the majority of retailers, we can minimize their need for independent internal investment. Now, clearly, there are some retailers who will want to manage more of these issues in-house and see value in making that investment. But for those who use our hosted solutions, we take care of the PCI compliance. As a trusted provider of payment solutions, compliance and security are our top priorities.

How much does PCI cost?

Ashim: Obviously, it varies. For the smallest merchant, it may involve buying a new payments terminal. We've seen an estimate of \$1,000 per point-of-sale. For the mid-sized players, there are industry estimates that the annual internal cost averages anywhere from \$150,000 to as much as \$1 million. Unless you are a very large player, there is no economy of scale to the cost of compliance and no one expects the regulations to diminish in the years ahead. It is also important to consider the cost of not being in compliance. We've seen players face millions in fines and lawsuits and the inevitable loss of the trust of your most important asset: your customer.

Everyone is making plans for next year. What is your advice on how to set priorities?

Ashim: Most budgets go to maintain existing store systems and point-of-sale software. My counterparts in retail organizations are asking themselves what needs to change to meet compliance requirements. Then they are asking where they can save money. And, finally, they want to know whether there is room in the budget for competitive advantage because they are very much in a fight for business against everyone down the street.

And what is your answer?

Ashim: I ask the question, "What is your cost if you do nothing?" In good times and bad, it is too easy to only do what must be done now. The problem is that this creates even greater limitations down the road. We believe we can show companies how the cost of switching providers has a lower risk, from an integration and conversion perspective. We have a national C-store chain that spent years not making the change. To be honest, that industry has some of the oldest and least flexible hardware that would cost tens of millions of dollars to change. We showed them how we could deliver a solution that sits on top of their



existing systems and can be switched out within months. And, we think that when you combine the benefits of the TransIT platform with our acquiring services, you see a clear payback. That same customer is now saving more than \$5 million a year. While that does not apply in every case, we think the ROI will come from several places.

Where is the greatest hidden cost in payments?

Ashim: Managing your vendors. Now, to be honest, for many years, you would have to go to specialist companies to get new and unique products. So, you had to build internal expertise and systems to support every new product you wanted to add. Then you had to have in-store training and dispute resolution. None of that fixed cost gets included in how these products are priced. The truth is that you can have a great rate on, say, check cashing or money transfer. But if you have a half-time person in the back office handling disputes or fraud, that doesn't show up in the P&L as clearly. Now that most payment products are mainstream, a company like TSYS has the ability to deliver them directly or to let you manage your preferred vendors in one place. That takes out a huge amount of operational risk and hidden costs.

What is the best way for a retailer to build the business case?

Ashim: After you've been honest with yourself about the hidden costs, ask what works now and what could work better. Then, from a payments perspective, prioritize the products and services that would improve your business. Maybe it is gift cards. Maybe you see the opportunity to drive a kiosk strategy to streamline customer flow through your stores. Maybe it comes in offering new products to make your store a destination for existing customers or new market segments, like the underserved. Then ask yourself who you trust to deliver on those strategies. We believe the answer is TSYS.

GET TO KNOW TSYS

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