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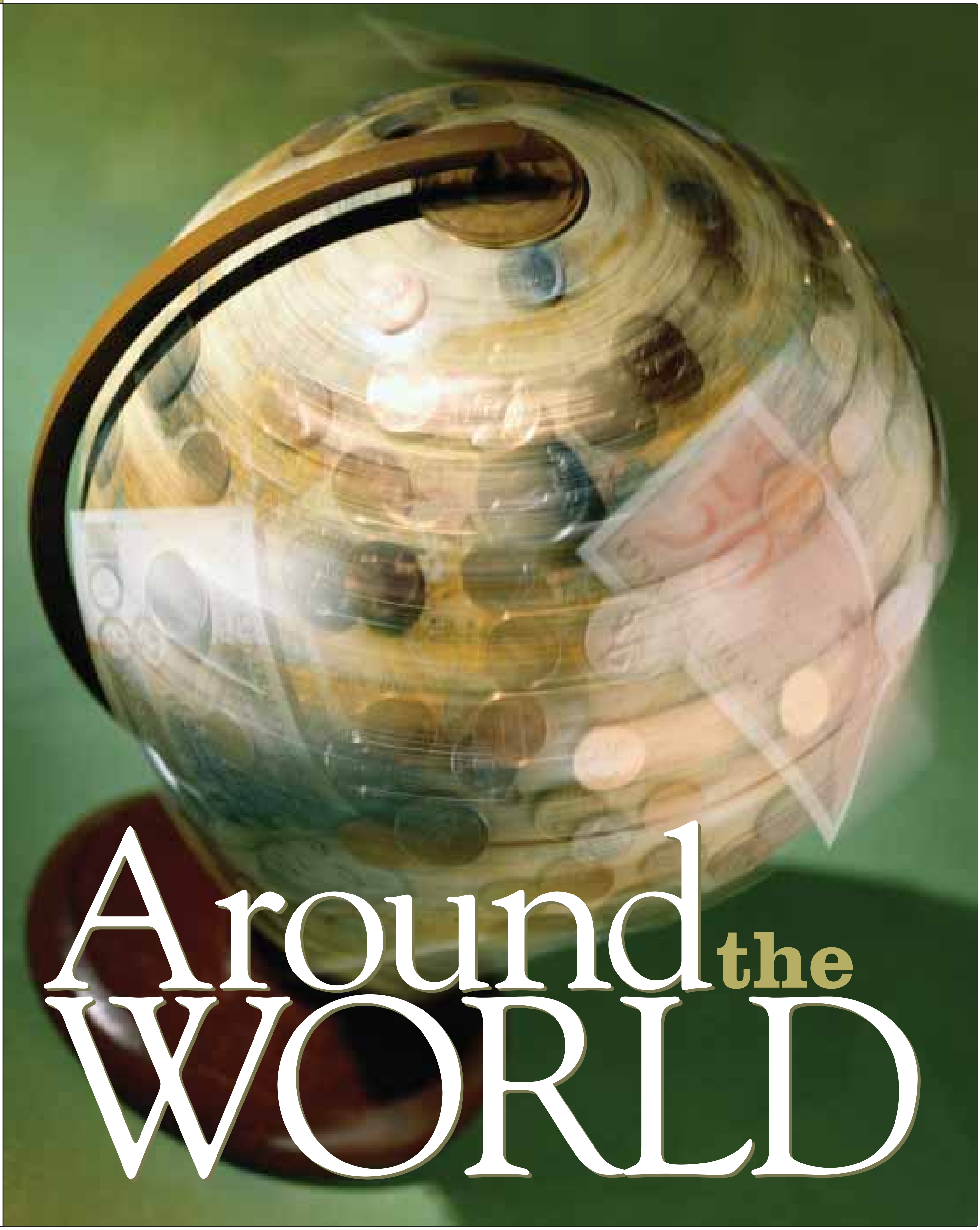

# Around the WORLD

By Lisa Dowling

# The Risks and Rewards of International Processing

The 21st century is witnessing an unprecedented business landscape as the Internet, worldwide implementation of technology and 24-hour global reporting have shrunk the marketplace. As our world grows smaller, opportunities for international processing loom larger. With this expansion come new rules, new strategies and a definitive need for new awareness and understanding.

The world market is vast. Just consider population figures—more than 3 billion people in Asia, nearly 800 million in Europe and Russia, more than 360 million in Latin America and 500 million in North America. Each market is different and is experiencing different stages of business lifecycles. Because of this, expansion into foreign countries is challenging but not impossible.

How does one break into the international scene? According to one expert in global processing, it's all about who you know.

"Unless you have an inside track, the best path to take is to partner with a company that's already established," says Jeffrey Baker, senior vice president of strategic planning for Global Payments and one of the speakers at the 2005 ETA Annual Meeting & Expo seminar on global markets. "Whoever expands is going to need local intellect and knowledge. The most successful way to get it is by joint venture."

This veteran of the international trenches stresses the importance of making sure those potential partners share common interests. "You need to find a partner whose interests are aligned with yours," says Baker. "If your goal is to go in with a particular product and take out a market share, then everyone must share a common and clear path to execution. Without that shared strategy, someone is going to end up disappointed, and the deal will dissolve instead of build business."

As with every business decision, there are questions to be asked before making a selection. "Other than normal due diligence, ask where that company sees your joint venture in five years," says Baker. "Ask about long-term plans. Ask how your business and their business will make a better proposition than what each of you already have. You will learn a lot about what their thought process is. Get inside their heads. Find out if they are motivated to stick around. Management for many international companies is key to a successful partnership. Many American companies don't have the management expertise to go into a foreign country. You must be very sensitive to their culture. They don't do business the way we do business."

## Culture Clash

Baker brings up a key issue of going global. Other than language, different cultures present an enormous array of challenges that must be addressed with sensitivity and respect.

"Many foreign cultures are more defined with regard to family as well as business practices," says Baker. "Their lunches are longer. Their holidays are extensive. Their technical vocabulary is different. Their financial institutions close daily at 2:30 pm. In order to be successful, you must understand and appreciate local cultures and dialects."

Hand in hand with cultural challenges come business risks. Internationally speaking, risk is in a league of its own. Financial risks are huge, more so than in the United States. Foreign currency represents more variables. If there are more variables, there is always more that can go wrong.

"Risk is a big part of going global," says Baker. "Different time zones, different currency, different languages—all these unknowns are in addition to normal business risks. In some countries, the risk is not having qualified people. In other countries, if you have specific technical needs and that country is not developed or educated enough to support your needs, then you encounter yet another type of risk. Because of that, some companies look to outsource or 'offshore' their joint ventures. Again, these situations pose great risk if not handled effectively. And another big risk is who from your existing organization is willing to uproot their family and move to a new country."

Despite these roadblocks, Baker recommends branching into international territory. Higher growth opportunities are present in many areas, including revenue, profitability, market share and scale. "If there is an opportunity that fits within your organization, go for it," says Baker. "I wouldn't recommend going global just to say you are. There has to be a hugely compelling issue. It is not something to do on a whim. It is quite strategic. You must think it through and be willing to accept the risks as well as the rewards."

## Due Diligence

Another leading professional in the international game is Diane Warren, president of eMark International and agent for IBIS, a provider of financial institution risk management services. eMark International places and manages high-volume merchant relationships with international banks and processors, specializing in underwriting, fraud prevention and consulting. eMark also issues global debit cards, manages merchant risk and offers electronic debit programs.

Like Baker, Warren sees opportunities in increased revenue, expanded sales regions and new types of customers when going global. She also is very clear on a course of action.

"Do the necessary due diligence," says Warren. "Create a budget, a specific timeline and be very aware of the regional rules and strict regulations. Partner with a company that fits the goals you wish to achieve. Look through exhibitors' list of conventions and expos in the niche market sectors and conduct extensive Web searches."

Warren sees wisdom in joining forces with a company on the move upwards. She recommends partnerships, value-added reseller (VAR) relationships and ventures with companies of equal or greater monetary size. The reason behind that: Many small companies tend to disappear in a year or two and this can disappoint your customers and your bottom line.

After finding the type of company that fits your needs, Warren stresses the importance of examining their financial position. Ask for a brief history of how the company was established, names and bios of principals and senior management as well as a list of current customers that can be disclosed. She then recommends executing a mutual non-disclosure and then beginning the detailed due diligence specific to their services or product.

"Ask for the name of the bank they use, a reference at that bank and are they a member of an association," says Warren. "Find out how long they have been a member. Ask if they own or lease their premises. Ask how many employees they have. Most important, have they worked with other U.S. companies before and what was or is the result of that relationship?"

Warren advises delving even further. Ask if your potential partner's key employees speak English? What currencies do they work with? Are they involved in any legal suits or municipal issues? Are they insured? Are they under any investigations, restrictions or penalties? Do they have a disaster plan in place? What kind of security features are in place for data and systems? Are they planning to sell or merge with another company within the near future?

When it comes to the challenges to be faced and overcome, Warren is just as specific. Understanding the regional rules and regulations is at the top of her list, followed closely by distance, logistic scheduling of meetings, time difference, different currencies, legal terms and local rules, laws and licensing, tax reporting, foreign banking requirements and the fact that procedures can change rather quickly at any given time.

## Security Measures

Like in the American market, security and fraud represent a major risk when going global. Recourse is more difficult overseas but can be mitigated with insurance policies, special bonds and escrow funds.

"Fraud and security issues are ever present, but new features continuously being introduced by the big boys will help keep fraud at bay," says Warren. "There is a fraud solution for each type of business; it's just making sure you have the right one for your international business model. Excluding hacker fraud is very manageable, while other risks can be misunderstandings because of language, technical interpretations and the loss of key employees. Any of these events can cause delays. The economic condition of the particular country can also be a cause for consideration as some countries are more stable than others. This needs to be considered in the long term."

According to Warren, reliable transportation and deliveries is also part of the equation for a successful international venture. Communication capabilities can be a problem as well in some areas, while other parts of the world are ahead of the United States.

"Political climates can be a problem that can change overnight," says Warren. "Labor strikes of all kinds occur everywhere, and they are much more severe when you are thousands of miles away from home."

## Building an Understanding

An acquirer that has successfully bridged the gap between domestic and foreign business is Abanco International, which found a way to capture more business and work with larger chains that have a presence outside of the United States.

Tracy Metzger, president/CEO of Abanco, sees American independent sales organizations (ISO) having an unprecedented opportunity to open their market and increase their market share. Echoing the sentiments of his colleagues, Metzger says hooking up with the right partner is vital.

"Find a company with exposure who offers a path of least resistance," says Metzger. "Most acquirers are well acclimated in the U.S. but not as well abroad. The best way to get that experience is to secure a partner."

Metzger emphasizes that securing that partner involves in-depth research and planning, especially when it comes to technology. Because of basic differences in standards for compliance and security, industry-centric questions need to be bridged from a technological standpoint. He can't stress enough the importance of technological knowledge when it comes to going outside domestic boarders.

"You have to find a partner that understands foreign technologies since tech needs differ from ours," says Metzger. "Rules and regulations of payment processing differ from country to country. The biggest challenge in going global is that there is no global standard."

When it comes to risk, fear of the unknown is paramount in Metzger's eyes. Not knowing what the payment trends and business cycles are in other countries can be tantamount to professional suicide.

"As U.S.-based payment processing entities, we do our own risk management," says Metzger. "As an acquirer, the financial risk when looking at different countries and techniques is all about knowing what is good and what is bad, what is legitimate and what is not. Experience can overcome this risk. It's all a matter of research and acquiring the right partner with the right amount of expertise and knowledge."

Mirroring the success of Abanco is another American company, Planet Payment, a specialty multi-currency payment processor since 1999 and provider of dynamic currency conversion (DCC) and multi-currency processing solutions for merchants in all industries, anywhere in the world. Responsible for corporate development at Planet Payment is Thomas DeLuca, recent chairman of ETA's International Development Committee. He sees international market opportunities as almost as limitless as the needs of merchants themselves.

"As business and trade become ever more seamlessly global in nature, American merchants are demanding ever more sophisticated answers to international payment requirements," says DeLuca. Understanding the merchant base and devising a strategy accordingly is the first step to take on the global path.

DeLuca says it's important to look at the merchant's needs. "From where are the merchant's customers coming? To where does the merchant want to sell? In short, recognize that no two merchants have the same set of international objectives or characteristics from which to go international. Every merchant requires a unique approach."

He recommends interested parties partner with companies that specialize in multi-currency processing, dynamic currency conversion, cross-border processing and have a proven history of doing so. Being big, or having offices internationally, does not of itself indicate an ability to help a merchant.

"Ask for reference sites," says DeLuca. "Do these reference sites translate into the specific needs you have? There really is no such thing as an 'international' market. Rather, there are multiple, specific countries, each with its own unique characteristics, whether legal, tax, cultural, technology, etc. I don't believe that you should seek to be an international company so much as you should seek to be a diverse company capable of operating successful businesses locally in more than one market."

Specifically in the payment sector, DeLuca believes there is an opportunity for the development of a true multinational acquiring business.

"Much like the United States was in the late 1980s, the worldwide payment sector is ripe with inefficiencies caused by a relatively inelastic supply of acquiring services due to regional or local financial regulations that restrict outside acquiring services from entering," says DeLuca.

"Inevitably," he adds, "as business continues to minimize the relevance of borders, merchants' demands will push the acquiring industry to address these needs, with the winning parties being those that can best provide truly seamless international processing solutions on a reliable and cost efficient basis." ***TT***

*Lisa Dowling is a freelance journalist who has reported on many aspects of the financial services industry, including payment processing, market trends and technology.*