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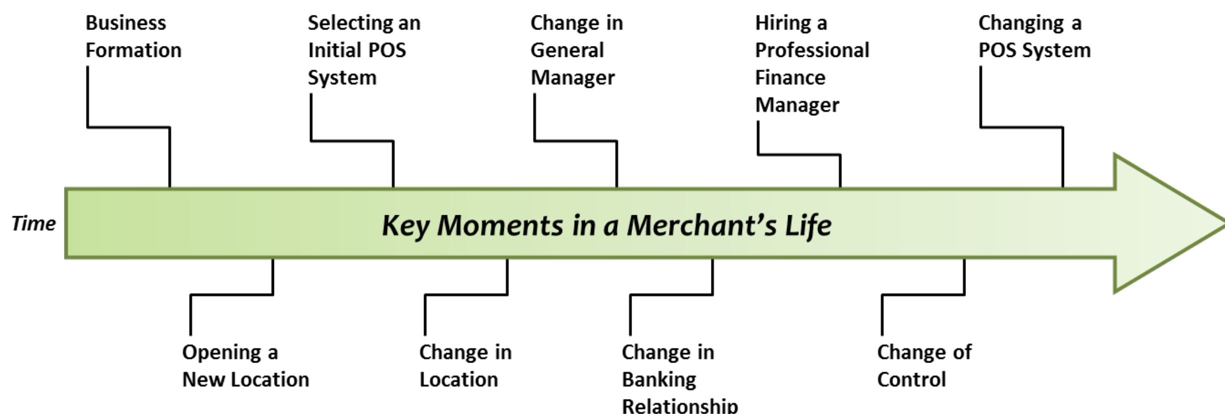
Merchant Life Cycle Marketing in Acquiring

By Marc Abbey

Consistently in First Annapolis research, the average small merchant is called on or contacted by ISO's and acquirers over two times a week, and it is a safe assumption that few, if any, of these acquirers are proposing higher pricing than the merchant's incumbent acquirer. Yet only on the order of 26% of merchants attrite in a given year, and much of that through business failure. Even if an ISO or acquirer is objectively uncompetitive in every aspect of its offering, an attrition rate of 30% - 35% would be a pretty bad outcome (as opposed to 100% attrition in other industries). Why does the merchant market work this way? We at First Annapolis believe that the single best explanatory factor for this attrition profile (and really the single best model for merchant buying behavior) is a merchant lifecycle model.

Our belief is that, in general and over a large numbers of instances, merchants are receptive to an acquiring pitch really at key moments in their lifecycles – when they start up, when they hire a professional finance manager, when they implement a new POS system, etc. Lead sources and sales channels have advantages and disadvantages as it relates to a merchants' lifecycle. So for example, a bank has an advantage in that opening a commercial DDA is one of the first things a merchant does. (And for established merchants, a change of banking relationships is a life cycle event in its own right.) Selling merchant relationships to the flow of new commercial DDA's in a bank is a well established and highly effective model; selling merchant services to the *stock* of existing businesses at banks (as opposed to the *flow* of new businesses at a bank), by contrast, is devilishly difficult.

The current emphasis on ISV-based strategic business development relationships is a function of this phenomenon in that ISV's and their dealers have a huge advantage at a key moment in a merchant's life – when it implements or changes its point of sale solution. However, all lead sources can be evaluated in this light – does a particular lead source give an acquirer access to merchants systematically at a moment when the merchant will be receptive to a pitch?



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A lifecycle model does not explain all merchant behavior, of course. It is certainly true that a merchant is receptive to a pitch when the incumbent has messed up – failed to resolve a service problem, triggered unwanted change, surprised the merchant with some unanticipated commercial term. Therefore, competitive strategies will certainly be more important in our industry looking forward than they were looking back.

There are also many in the industry today who are making a bet that merchants will respond to a better mouse trap -- a new product or new feature different from what other acquirers can offer. There are many examples of merchants responding to this sort of offer; however, the jury is out on how large this segment is. How many merchants will trigger a buying decision purely as a result of the product differentiation acquirers and others are developing.

Even considering these other influences, a lifecycle sales and marketing approach remains highly explanatory of merchant behavior and should be a foundation in acquirers' business development and sales and marketing strategies.

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