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Payment Processing



Cashing In On Cashing Out

By Evan Schuman, The Content Firm

Usually a change in technology and business process can improve efficiency; sometimes it can transform a business. A few retailers are using payment process changes to change their businesses substantially.

The transforming technologies behind these advances include radio-frequency identification (RFID), cash back policies, and advances in real-time fraud loss prevention.

RFID Can Change the Game

The most celebrated—and ambitious—payment system innovation in recent years belongs to ExxonMobil and its Speedpass Network. The program is still not in national rollout, but the initial test sites include some 7,500 gas station adopters, 440 McDonald's restaurants in the Chicago and northwest Indiana, and the Stop & Shop grocery chain starting with two stores in Boston.

The Speedpass RFID system simultaneously differentiates the retailer with superior convenience at POS and a high-tech image, identifies the consumer for purchase history tracking, and enables personalized upselling.

Seeing over 6 million consumers involved, Timex's watch teams thought it was time to create watches with an embedded Speedpass transponder.

Customers use Speedpass intuitively, which is part of its charm. The customer simply waives a tiny device—often on a keychain—at the purchase point and the charge is automatically registered on that customer's credit card. Its “couple of inches” range is much less

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than its quarter-mile-detecting EZPass cousin—which identifies and charges motorists driving through toll roads without the motorist having to stop—and that minimizes some of the privacy intrusion and fraud-vulnerability concerns, said Joe Giordano, Speedpass's creator.

Beyond increased sales, Speedpass is a model for more efficient payment devices that can help sales in a myriad of ways. Verifone Marketing VP Stuart Taylor is one of those who is most impressed. "One of the biggest users of Speedpass are women with young children," he said, adding that they are drawn to the security, convenience and speed of not having to get out of the car (self-serve) or fumble with credit cards (fullserve). "That is a huge consumer demographic win."



Giordano sees Speedpass as a universal identifier to enable CRM programs in a much more cost-effective way than is practical today. "The endgame vision is that this is a ubiquitous form of customer payment and it could be a key ring, a PDA, a watch, a phone: practically anything a customer wants to use," he said. "It could be as small as your fingernail."

The next phase calls for extensive interactivity, starting with immediate intra-Speedpass promotions (a POS message at the end of a gas station visit might offer \$10 off the customer's next trip to McDonald's) to offers dispatched to the customer's E-mail or phone at a later time. Done properly, "E-mail can create a very low-cost marketing channel for the retailer."

Look for Speedpass to be going into banks and a wide range of retail locations shortly, all with the focus on "simplicity for the customer" and the mantra that "we can't slow down the speed of service," Giordano said, adding that he was originally inspired by the gas stations of long ago, where a customer would be known to the employees and might have them fill the tank and then drive off, shouting, "Hey, Johnny, just put it on my account!"

ATMs As Profit and Traffic Generators

Thomas Tessema, the owner of the Deluxe Mart Mobil in Dallas, never saw payment systems as an especially strategic part of his business plan, which focused on trivialities such as selling gas, food, beer, oil and a pint of ice cream at 3 a.m. But that started to change last May.

Back in May, he had agreed to a trial program with Cardtronics and CashWorks for an elaborate authentication program for people with checks to cash them using an on-premises ATM.

How is this making Tessema happy? First, he gets 1% of the face amount for cashing those checks. Those percentages alone are adding more than \$2,000 a month to Tessema's profit margin and that's for the single convenience store that's testing it on. On top of that, he estimates that more than 80 percent of the check cashers immediately use some of that money to purchase cigarettes, beer or gas. "It's very rare that they just cash the check and leave," he said.

"Each person who cashes a check spends an average of \$20 in my store, and we average about 20 checks per day—that's \$400 a day in additional sales for my store," Tessema said.

Tessema's check system calls for a cashier to swipe the check, which generates a message to the call center with the check's account number and name. It also grabs a photo image of the check, including the signature. The cashier will then swipe the customer's driver's license—or comparable identification from Mexico—and also run that data through the database. If all comes through clear, the ATM is authorized to dispense the cash, minus the sliding fee—starting at about 1.75 percent, with a \$3/check minimum.

Beyond the impact on his profits, Tessema also likes the reduction in unprotected cash that he now needs to keep in the store.

Foiling Fraudsters

For many retailers, the dollars lost to fraud remain a huge potential gain, especially with checks. According to Jeff Carbiener, SVP Certegy Check Services, since the typically good check writers are migrating to debit cards, it creates a higher level of fraud in the remaining check writers. He cites American Banker's statistic of check fraud doubling to \$4 billion since 1999 with 90% of it at retail POS. Nevertheless, Certegy has been able to improve scoring model accuracy, reduce costs, get response times to one second and keep up with the ever increasing sophistication of fraud rings.

Ken Barnes, the loss prevention specialist for the Brown & Cole supermarkets (brownandcole.com) has cut check fraud losses up to 92% (in one store) using Identico Systems' approach of scanned photo ID plus photos taken directly at the ATM. According to Barnes, fingerprinting checks was "worthless" because local police need to send fingerprints to the state capital, and that rarely happened, and fingerprint readers were more expensive than the fraud losses. ■