white paper

Best Practices: Merchant Retention

PRESENTED BY THE BEST PRACTICES COMMITTEE OF THE ELECTRONIC TRANSACTIONS ASSOCIATION

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Executive Summary

While a modest economic recovery appears to be underway among merchants, merchant attrition remains a concern for many companies in the acquiring industry. Effective merchant retention strategies and best practices are an important and cost-effective tool to minimize attrition and stabilize portfolios.

The Best Practices Committee has researched and published this White Paper to indentify some of the causes of avoidable merchant attrition and highlight industry best practices that target merchant retention.

Attrition and It's Causes

Some merchant attrition is unavoidable, caused by an economic downturn, shifts in consumer preferences or poor business management on the part of merchants. Avoidable merchant attrition, on the other hand, is related directly to the relationship between merchant and acquirer. In the latter instances, the leading causes of attrition are customer service issues and price.

Addressing Attrition Before It's Too Late

At the strategic level, the key to effective merchant retention is to identify potential portfolio defections before the merchant actually switches service providers. It's often easy to see the signs of a discontented merchant after the fact. Noticing these signs – and taking effective action before the merchant takes his business elsewhere – requires a sensitive set of alarm bells and a willingness to listen to what they are saying.

Improving Your Merchant Retention Efforts

Prevention is the best way to address attrition. Communicating effectively and often with customers is the best way to identify and remove issues that may one day convince a valuable merchant to take his business to a competitor.

Differentiating your company and its offerings from competitors also is an effective way to create customer loyalty, particularly if your goals is to maintain margins without increasing customer churn.

A well-trained sales force, one which knows your products and services and communicates your policies and practices clearly and accurately, is another important factor in preventing attrition. The sales force also is key to identifying potential problems before they become acute. The same emphasis on training for customer support personnel also is critical, along with a clear path for escalating service issues until they are resolved.

Finally, if a valued merchant escapes prevention efforts and departs, be willing and prepared to follow up, discover the cause, address it if possible and do what you can to reverse the decision. Keeping a profitable customer always is more beneficial to your bottom line than finding, recruiting and boarding a new customer.

Merchant Retention Best Practices

ETA Best Practices Committee
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Why Focus on Merchant Retention?

Whether it is called merchant retention, account management, or relationship management, the goal remains the same: keep existing merchants. Effective merchant retention is simply the ability to keep existing customers.

In these tough economic times, merchant attrition is on the rise. Merchant churn rates keep climbing to everyone's dismay. Portfolio turnover means less income, less profit. Most companies in the payments industry will acknowledge privately, if not publicly, their growing concerns with the increase of merchant accounts closing. Industry insiders comment on seeing increased numbers of smaller merchants' price hopping from place to place with each passing day. The merchant's perception is an anticipated savings of as little as a few dollars each month. Larger merchants having triggering price wars, obtaining signing bonuses, and price concessions.

Most people in our industry will agree that more resources are expended attracting new merchant customers than to retain an existing merchant. Think about this statement. It is usually more cost effective to retain current merchants who deliver a predictable, consistent stream of transactions. Yet, most companies budget resources to give new merchant accounts top priority and few have formal merchant retention plans.

Not All Merchants Are Equal

In our competitive industry, we have all experienced the signing of low or unprofitable merchants. Over time, we see that the result of using low promotional pricing actually contributes to higher churn rates. Compile and review your data to find out which merchants are worth the battle to keep in your portfolio. Bear in mind that some merchants will look for the lowest cost solution each year, and that the only way to keep them is at a very low margin. We have all had these merchants. If a merchant is costing you more to service than the profitability on the account, perhaps you are better off without them. The key here is to know which merchants are making you money and which ones are servicing nightmares. If you don't know which of your merchants are in the high maintenance category, ask your customer service people –*they know!*

The Causes Of Attrition

Merchant attrition occurs for a number of reasons. Recently, with the poor economy, more and more merchants are simply closing their doors or have stopped taking credit cards altogether as a measure to reduce expense. These situations are unavoidable and simply part of the business. There are, however, avoidable causes for attrition.

Merchants are hesitant to report service as a reason for their leaving a processing relationship. Direct questions asked of a merchant by a live representative will not usually reveal service as a large motivating factor for leaving. However, independent surveys indicate that more than 70% of merchants say poor service is the reason for leaving, far more than those who cite pricing, which is the second most common cause for switching service providers. Merchants report negative feelings of poor treatment, servicing was indifferent or unappreciated, and lastly simply ignored. These feelings, merchants felt, resulted from: no answer to a merchant's email or letter, on hold for long periods of time, no follow-through on issues raised.

Pricing is growing in importance as a cause for attrition, in part due to increasing competition within the acquiring industry and additionally caused by increasing attention on interchange fees as a result of publicity and lobbying efforts by organizations representing retail merchants.

Prevention Is Better Than A Cure

The most successful strategy for retaining valuable merchant customers is to detect potential attrition and take effective action before it occurs.

While they are more easily identified in hindsight, the warning signs that indicate a merchant's intention to drop your service can and should set off alarms in plenty of time for you to take remedial action. For example, sudden large changes in processing volume or batching practices often precede a change in processor. Sudden increases is customer service calls or, more significantly, a request for a rate review or explanation of contract terms also are telltale indicators of an unhappy merchant or one who is being pursued by an aggressive competitor.

These and other indicators can easily be missed unless your sales team and customer service representatives are well-trained and have a clear and effective way to communicate them to those in your organization who can be proactive in addressing the merchant's concerns.

Once a poor service 'event' has happened, it's difficult to turn around. Price concessions may help, but the promise of excellent service going forward unfortunately rings hollow, despite hundreds or thousands of other happy customers. The key is to get the initial set up correct and set the proper expectations with the customer. Once a customer is up and processing and understands his or her first few statements, service issues will generally be limited to unexpected outages, new products or services, or new fees. Being thoughtful about dealing with the unexpected and clearly communicating any changes will help mitigate service issues. The more a merchant perceives the processor is looking out for his or her business, the more the relationship binds the merchant to the processor. This cohesion phenomenon is referred to in our industry, as "stickiness" which demonstrates if the merchant feels secure and loyal within the relationship.

You also may want to track and identify the top reasons for service calls. This process needs to be an ongoing process which will be made easier by the use of technology. While some organizations use paper or online surveys to help to gather this information from merchants, a better return of information can generally be procured by a live person with a non-threatening polite and respectful approach asking questions.

Most companies have toll free phone numbers established for merchants to call in. Service staff must realize that merchant complaints are an opportunity to make things right. Staff must be properly trained and be given the authority to do the right thing.

- Valuable skill sets include the ability to let the merchant talk and be heard and to listen and ferret out what the real issue is. Many times you must have the patience to allow the caller to tell his story in order to help solve the problem. Don't interrupt or argue with the merchant while he is relaying the circumstances.

- Do not attempt to blame someone else, because the merchant does not care whose fault the issue is. He simply wants the problem fixed. When you say "I'd like to help you get this resolved, I'm sorry you have had issues", let the merchant hear the sincerity in your voice. When the merchant knows you care, many times it helps them to calm down.

- Use the merchant caller's name. Everyone likes to hear their own name; this is the "Cheers" syndrome –where everybody knows your name.
- If you are researching an issue, and need to call the merchant back – then do so! Even if you do not have an answer yet, the merchant knows you have not forgotten about his problem.
- Treat existing merchants fairly, even when you don't have to. Ask yourself, if this was a new merchant account we were soliciting would we propose different pricing or offer new equipment? If so, perhaps the answer is to offer this same deal to your existing merchant to keep him. Perhaps to retain a good merchant, you could offer a temporary rebate or an upgrade to their service or equipment. Think about you are willing to offer a prospective new customer and analyze if you are willing to offer something similar to an existing merchant.

Preventing attrition requires clear and frequent communication between acquirers and their customers, from the first contact between merchant and sales rep to the content of the last statement the merchant received. It's likely that the majority of customer churn stems from a merchant's lack of understanding of his agreement, whether that arises inadvertently or as the result of deliberate misrepresentation by one of the parties.

Frequent communication need not be technical or financial in nature. In fact, something as simple as a newsletter or periodic reminders about your customer service commitment can be effective in building customer loyalty. One thing to remember is that any survey, email or newsletter must provide some value or possibly reward to the merchant to prevent your data gathering mechanism from being thrown out as junk mail.

Maximizing Retention

If despite all of your best efforts the worst happens and the merchant account closes, then what? We will assume you have already determined this is a profitable merchant which you want to keep. Do you know why they left? If not, you need to find out. Can you correct the issue which led them to leave? You can advise them of the action steps taken to prevent the situation from re-occurring. Are you willing to compensate them in some way, if so, explain those details to the merchant. Finally, ask them politely to return so you can demonstrate to them that you mean what you say.

We have polled several organizations who track the reasons for merchant attrition. Below are the top 5 over all merchant attrition reasons, in no particular order:

- Switched to new processor
- Merchant changed mind or opened in error
- No longer processing
- Rates/fees too high
- Service issues

We will elaborate on a few scenarios by providing the essence of the contact from the merchant for each of the above reasons, along with specific actions or recommendations to try and retain the merchant processing account.

Chose different processor

When receiving a call that a merchant is leaving because they are switching their processing to another processor, the following is a useful checklist:

● Was it because of service?
  - In this instance, determine the actual service issue, whether it was a specific agent that was rude to them or an issue with their specific Relationship Manager or Sales Agent.
  - Resolve: Change their contact person, and monitor for the next 30 days.

● Are there any outstanding issues that caused you to make that decision?
  - This could be an instance where the merchant requested a type of reporting or even an enhancement to a product, and it has not been delivered.
  - Resolve: Provide an interim solution until the promised report/enhancement is done, whether that be manual or automated.

● Was your decision based on price?
  - Resolve: Initiate a rate review, and determine if a meet or beat proposal can be presented.

Merchant Changed Mind/Opened in Error

This is a call from a merchant that has buyer's remorse, and decides to not continue with the new account that they opened with us. Can you retain a merchant that doesn't want the account anymore?

- Resolve: We will offer them free equipment, credit on their lease equipment, and a look at crediting processing for a set number of months.

No Longer Processing:

Applies to merchants that open accounts, process for several months and then go dormant.

- Resolve: Communicate with merchant to re-engage the customer to process; again we use rate reviews, free equipment, credits on fees to entice to process again.

Note: You will need to have some sort of tracking mechanism in place to know who is no longer processing.

Rates / Fees:

Each sales organization has its own pitch around fees and services, touting the benefit of their program over the competition. There are as many pricing schemas as there are acquirers. The fees charged to merchants are largely influenced by the card brands, acquirers and processors, but it is possible to differentiate in this area. There is a balance between bundling and itemizing pricing to merchants, and depending on the industry, transaction volume, and competitors in the space, itemizing some while bundling others may prove to be an attractive proposition. Larger merchants with dedicated finance teams prefer itemized pricing in order to attempt to keep costs of acceptance low. Smaller merchants, such as sole proprietorships, are looking for a way to keep costs low but prefer to have a simpler statement. Even with bundled pricing, there are a number of rate tiers into which transactions fall, possibly causing merchant confusion. Regardless of method, items that are typically broken out include statement fees, authorization charges and equipment rental. To further complicate matters, some sales organizations offer free equipment. For the truly cost conscious, fee sensitive merchant, a total cost of acceptance comparison between competitors will help win or retain customers.

When a merchant is leaving because they are switching their processing to another processor over rates/fees:

- Resolve: Initiate a rate review, and determine if a meet or beat proposal can be presented.

Services:

When we receive a call that a merchant is leaving because they are switching their processing to another processor due to service;

- In this instance we would try and resolve service issue, whether it was a specific agent that was rude to them or an issue with their specific Relationship Manager or Sales Agent.
  - Resolve: Change their contact person, and monitor for the next 30 days.

If a merchant is still ambivalent about keeping the account open, there are times that a gently worded reminder that cancellation is still possible in the future may be enough of a reason to stay with you as a customer. You may want to consider putting up some roadblocks to slow down the closure process, such as requiring formal notice in writing. This delaying tactic can provide you with the chance to address the issue prompting the closure request, before they leave. Some companies will put up exit barriers which are too high for a merchant to leave, even if the merchant has a legitimate reason for dissatisfaction. One thing to remember using this tactic is unhappy merchants tell an average of 7 people about a negative experience, while satisfied merchants may tell only one person. Exceptional experiences are shared with an average of three people. Those numbers translate to "Let's give them something good to talk about!" This is really free marketing for you, if you can get your existing merchants to talk to other merchants about you. Think about how you can incent your existing client base to refer others to you.

A Note on Termination Fees and Their Role in Retention

Due to the fact that a majority of attrition happens within three years after a merchant an account is established. And, taking into consideration that the cost to board a merchant is around $1,000 and acquirers make an average of $500-$600 per year. The termination fee is a logical way to re-coupe some of the acquirers costs. However this process can be abused.

Some of the typical complaints heard from merchants are:

- The Sales Representative misled the merchant and the account ended up costing a considerable amount more than their previous processor.

- The processor could not effectively support the existing equipment the merchant had already purchased and they were going to be forced into purchase another expensive terminal or software solution to continue the relationship.

- The new processor's risk department identified that the merchant did not meet the underwriting criteria after the account was booked and the account is closed down.

The above issues are usually discovered within the first month of processing and therefore the merchant has not only had the hassle of changing processors but is now having to either go back to their previous bank or find a new company. In addition to whatever set up costs they will incur they are now also being told they will have to pay a termination fee for a service they couldn't use.

There are companies that fail to clearly disclose the steps to terminate the relationship as well as the costs involved.

- The merchant is billed for all the remaining monthly fees in one lump sum.
- The merchant was not informed that the contract auto renews on their anniversary date.
- The merchant did not know that the request must be sent in writing to the processor.

Poor customer service also plays a large role in a merchant's frustration when trying to terminate a relationship. Most merchants understand their contractual obligation when an early termination is taking place. However, many find that the customer service representatives are less than helpful when trying to figure out how to close an account.

- Complaints of merchants who continue to get billed after faxing in the letter to the processor.
- Complaints when the merchant contacted the company to see why they were still being billed merchants were told it was due to the fact that the merchant had not signed the letter.
- Complaints that the merchant was unable to get through on the customer service lines or never received return phone calls.

The irony in the above items is that customer service is one of the top attrition reasons.

Attrition does cause additional risk to the acquirer and they should take all steps necessary to protect themselves. However diverting a merchants funds or placing a merchant on the MATCH system for the sole purpose of recovering uncollected fees is not only a bad practice but also against the Payment Card Brands' Regulations.

Conclusion

The art of merchant retention can be mastered if you're willing to give it the attention it deserves. The keys to customer loyalty are to offer value, communicate early and often, respond quickly and accurately, and treat even the most demanding customers honestly and fairly.

Contributing to this article were Bill Lodes, Chase Oelkers, Deborah Brown, Laurie LeBoeuf, and Victor Susman.