

How Can Level-3 Information Processing Lower Your Costs

Credit Card Acceptance for Revenue Opportunities, as a Credit & Collection Tool, and Greater Profitability

ELECTRO-E-BIZ FORUM 2007

September 19, 2007



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Speaker Profile: Wade Tetsuka

- ▶ EVP – Corporate Division, Diamond Mind, Inc.
- ▶ C.P.A., formerly Ernst & Young and *PriceWaterhouseCoopers*
- ▶ Graduate of University of Pennsylvania, Wharton School of Business
- ▶ 10-year Medical Device Industry Executive
 - WaveLight, Inc., Sterling, VA (President)
 - Tutogen Medical, Inc., Alachua, FL (General Manager)
 - Acoustic Imaging Technologies Corp., Phoenix, AZ (President)
- ▶ Publications:
 - *Level-3 Processing: An Opportunity for increasing sales and reducing costs*, Authors: Wayne Berson, CPA and Wade Tetsuka, CPA, *Government Express*, Washington, D.C., September 2006
 - *Lower Costs & Greater Marketability through Purchase Card Acceptance and Level III Processing*, Author: Wade Tetsuka, CPA, The Coalition for Government Procurement, Washington, D.C., *Off The Shelf Newsletter*, October 2006
 - *The Future of the Federal Government's SmartPay® II*, *Amtower Off Center Talk Show*, 1050 AM Federal News Radio, Washington, DC, June 2007
- ▶ Memberships and Affiliations:
 - Vistage CEO Membership Organization, Member
 - Loudoun County, VA, CEO-Council Member
 - BCF Chairman, Maryland-DC Supplier Development Council
 - Member, Virginia Society of CPAs



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What is in it for me ?

- You might be Losing Revenue Opportunities and Don't Even Know It
- Getting Paid On Time, Every Time (Credit & Collections)
- Keeping Up with e-Commerce
- More Profits



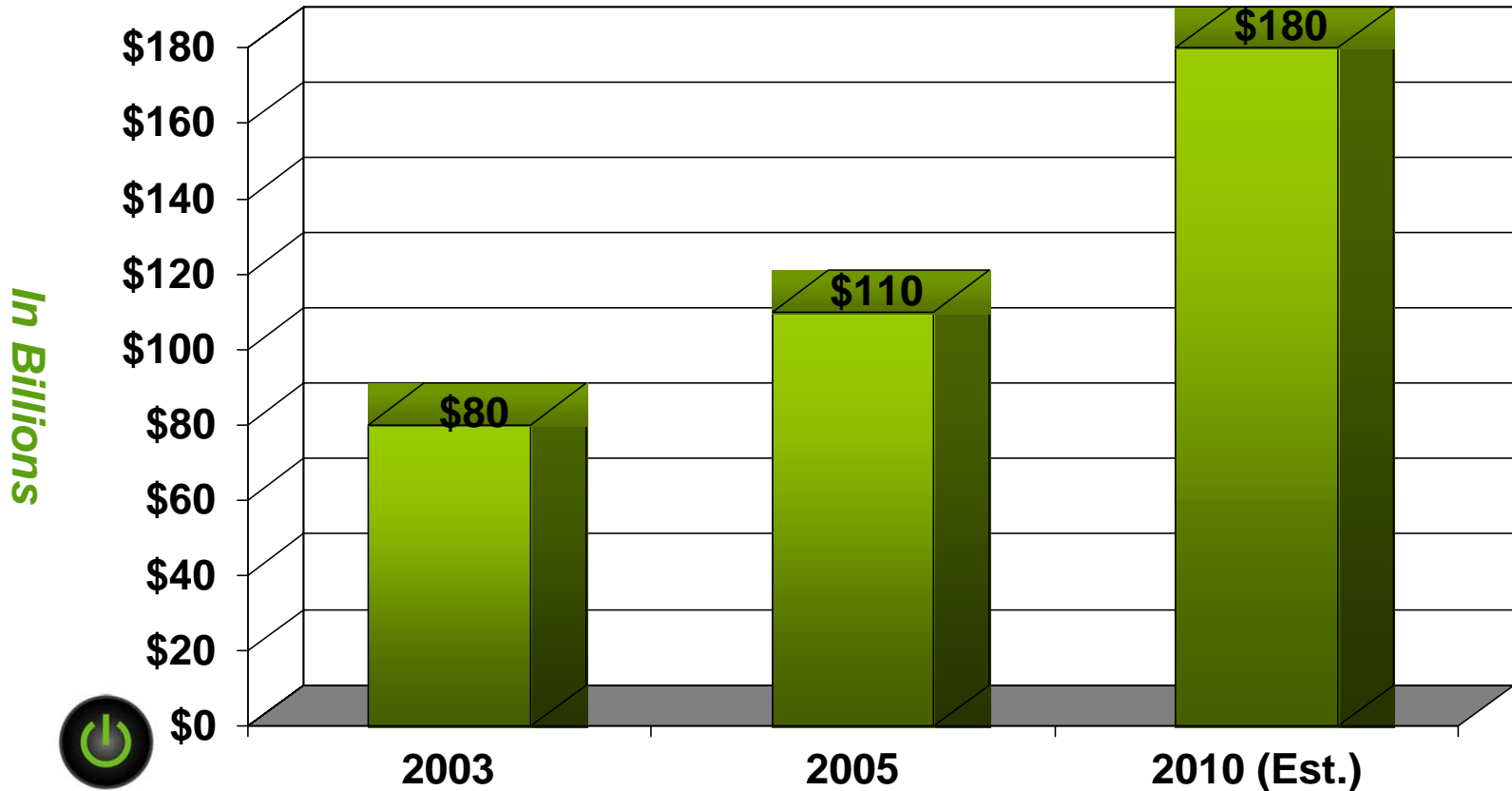
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1. Why you might be losing Revenues and don't even know it

Purchase Card Spending (B2B Transactions)



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Source: "Purchasing Cards in the U.S. Report", 2002, Celent Communications, Boston, MA.

1. Why you might be losing Revenues and don't even know it

72% of The Fortune 500 pay extensively with Purchase Cards (Visa, MasterCard, AMEX)

- ▶ If you don't accept credit cards for payment of invoices:
 - You may be distancing yourself from your customer
 - In worst case scenario, you are not even being considered for receiving the Order



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Source: "2005 Purchasing Card Benchmark Survey", Richard J. Palmer, PhD., Mahendra Gupta, PhD., and Robert L. Vigil, PhD., RPMG Research.

2. Getting Paid On-Time, Every Time (Credit & Collections)

A. When Executed Properly, the use of Credit Cards for payment will result in FASTER COLLECTIONS, AT A LOWER COST, WITH LESS FRUSTRATION AND TIME !!

B. Acceptance of Credit Cards can obviate the lengthy and subjective “credit check” process, especially in New Customer Situations

- ▶ Result is WIN-WIN Situation for You and Your Customer:
 - Your Customer pays up to 45 days later (effectively Net/45 Terms)
 - Your Customer earns points or cash rebates on its Credit Card purchase.
 - You Collect Payment in < 10 days (Perhaps even 48 hours after Shipment) for a discount of less than 2%.



2. Getting Paid On-Time, Every Time (Credit & Collections)

- ▶ Electronics Industry, 2/10, Net/30 is common practice
- ▶ With Credit Card Acceptance in B2B Environment:
 - Merchant Fee is often 3% or higher (effective rate)
 - Reduce this to <2%
- ▶ If you can provide Level-3 data



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3. Keeping Up with e-Commerce

Level-1	Level-2	Level-3
Transaction Info	Add: Purchase Info	Add: Product Info
<ul style="list-style-type: none"> • Merchant Name • Total Purchase Amount • Date 	<ul style="list-style-type: none"> • Sales Tax Amount • Customer Code • Tax Identification Number • Minority Code • Store Zip Code • Merchant State Code 	<ul style="list-style-type: none"> • Product Quantity • Product Code • Product Commodity Code • Product Description • Product Unit of Measure • Ship from Zip • Ship to Zip • Freight Amount • Duty Amount • Product Extended Amount • Product Net/Gross Indicator • Product Discount Indicator



3. Keeping Up with e-Commerce

- ▶ Institutions have begun providing state-of-the-art procurement solutions that offer the software necessary to link seamlessly to the customer's ERP application and General Ledger.
- ▶ These solutions potentially offer customer enterprises the necessary incentive to increase transaction volume on card-based programs.



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***Source:** David Fish, Senior Analyst, Mercator Advisory Group*

4. More Profits

- ▶ **Quiz:** The merchant fee paid by the Vendor/Supplier for accepting a Credit Card should be lowest when accepting a Credit Card from a:
 - ▶ Consumer / Individual Card Holder
 - ▶ Corporate Card Holder
 - ▶ Federal Government Card Holder



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4. More Profits

The Risk of Chargeback or Transaction Fraud is the element which most determines the interchange rate (and ultimately the merchant service fee)

Low Risk of Chargeback

- ▶ Card Present Transactions / Physical Swipe
- ▶ Goods and Services received at the time of transaction
- ▶ Average Transaction Size < \$900
- ▶ Consumer Credit Cards (lower credit limits)

High Risk of Chargeback

- ▶ Mail Order / Telephone Order (MOTO)
- ▶ Goods and Services may be delayed
- ▶ Average Transaction Size > \$2,500 or more
- ▶ Business and Government Credit & Purchase Cards (high credit limits)



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4. More Profits

Retail Merchants

Low Risk of Chargeback

- ▶ Card Present Transactions / Physical Swipe
- ▶ Goods and Services received at the time of transaction (Retail & Restaurant)
- ▶ Average Transaction Size < \$900
- ▶ Consumer Credit Cards (lower credit limits) are being accepted
- ▶ **MC/Visa Interchange Rate: about 1.5%**

B2B Merchants

High Risk of Chargeback

- ▶ Mail Order / Telephone Order (MOTO)
- ▶ Goods and Services may be delayed
- ▶ Average Transaction Size > \$2,500 or more
- ▶ Business and Government Credit & Purchase Cards (high credit limits) are being accepted
- ▶ **MC/Visa Interchange Rate: about 2.5% or more**



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4. More Profits

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B2B Merchants

High Risk of Chargeback

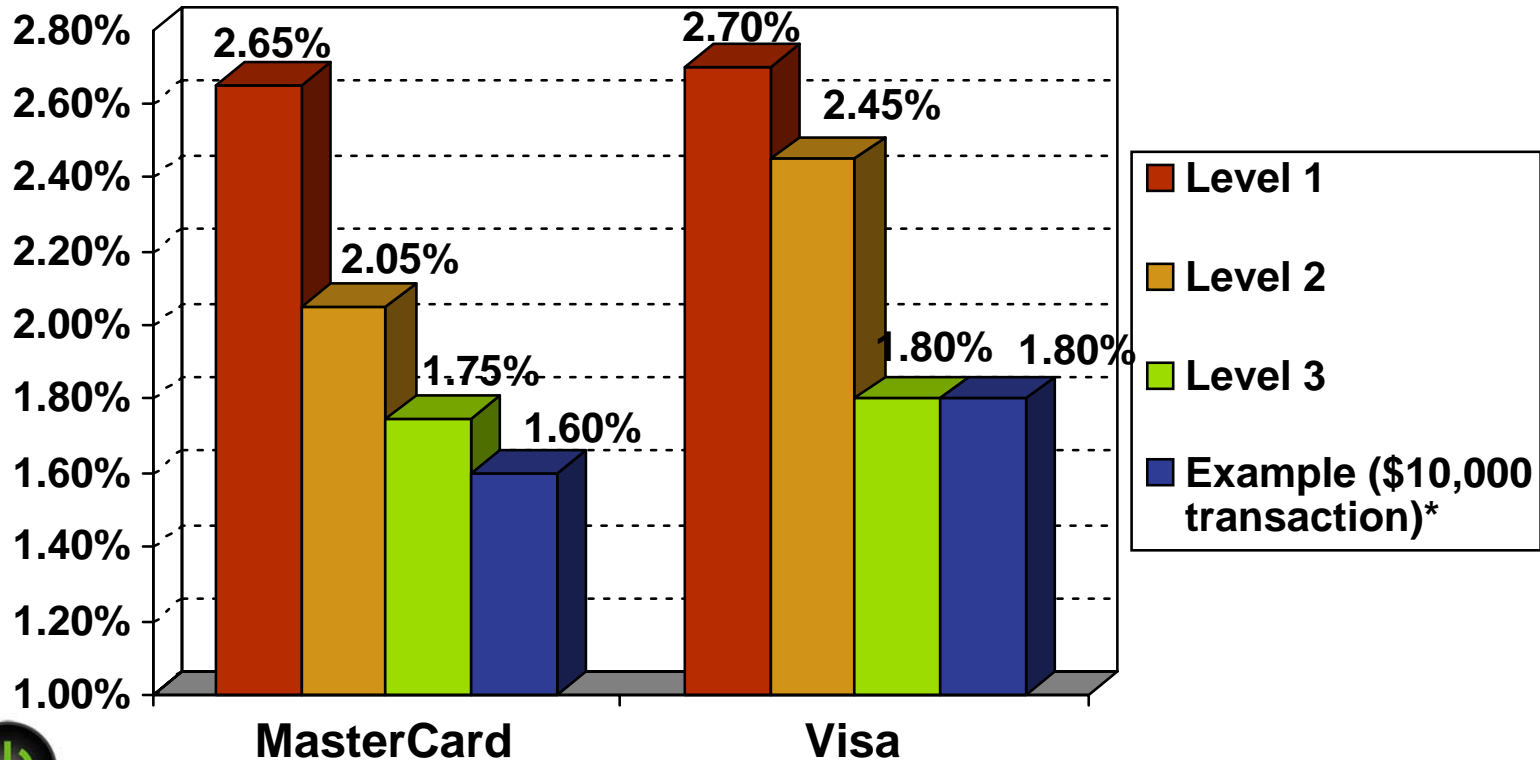
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- ▶ Business and Government Credit & Purchase Cards (high credit limits) are being accepted
- ▶ **MC/Visa Interchange Rate: about 2.5% or more**

Level-3 will reduce the Interchange Rate down to <2% depending upon The type of card and size of transaction



4. More Profits

Impact of Level 3 on Discount Rate (Commercial P-Cards) Bank Interchange Rates Shown



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Rates per April 2007

MasterCard Large ticket Rates:
1.20% + \$40.00 per transaction

4. More Profits

An Example: The Rate you are Quoted, is not always The Rate which you pay.

Summary

	<u>Number of Items</u>	<u>Dollar Amounts</u>	<u>Fee/Charges Category</u>	<u>Fee Summary</u>
Items	137	114,525.91	Visa/MasterCard Charges	4,984.64
Returns	22	60,435.39	Authorization Fees	12.45
Net Sales	159	54,090.52	Other Fees	6.50
Chargebacks	0	0.00	Total Charges and Fees	5,003.59
Adjustments	0	0.00		
Total Sales	159	54,090.52		



Charges and Fees have been posted to Account #XXXXXXXXXX2231



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More Profits

Visa/MasterCard Charges

Description	Sales Amount	Item Count	Discount Rate	Item Rate	Discount Charge	Item Charge
Visa	72,218.95	101	2.3900	0.3100	1,726.03	31.31
MasterCard	42,306.96	58	2.3900	0.3100	1,011.13	17.98
Summary	114,525.91	159			2,737.16	49.29

Description	Sales Amount	Item Count	Discount Charge	Item Charge
RF	29,453.56	31	656.81	3.10
COMMERCIAL EL	260.00	1	5.80	0.10
COMMERCIAL ST	42,205.39	57	941.18	5.70
RF-US DB	300.00	1	6.69	0.10
C REFCON3	0.00	3	0.00	0.30
C REF CRP3	0.00	8	0.00	0.80
ATA RATE I	25,794.00	24	575.21	2.40
Summary			2,185.69	12.50
Total Charges			4,922.85	61.79

Handwritten annotations:
 - Under Sales Amount: \$98,012
 - Under Item Count: + 2.23%
 - A circle around the 2,185.69 value in the Summary row, with an arrow pointing to the 4,922.85 value in the Total Charges row.



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Surcharges for Commercial Card Acceptance

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