



Measuring the Total Cost of Payments (T.C.O.P.)

Objectives:

1. Identify cost savings as % of revenue
2. Identify means of improving provider pricing and servicing
3. Prioritize initiatives to increase uplift
4. Determine process and operational improvements to improve operational efficiency and credibility

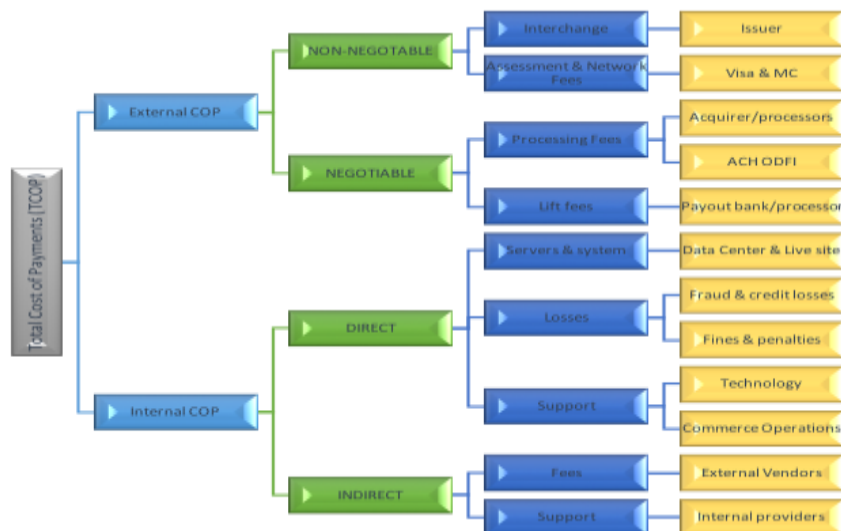
The Payments function accounts for 2 – 5% of any merchant’s top line revenue. Sometimes it can account for up to 30% of CoG for small ticket items. Managing payments is difficult due to complex fee structures, multiple players within the supply chain and different billing schemes.

Properly managing this cost goes beyond managing fees paid to the card processor as there are many other factors that must also be considered.



Background

RPGC was engaged to assess a Fortune 100 hybrid goods merchant’s Total Cost of Payments (TCOP) and prioritize initiatives to create lift and lower operating costs (as a % of revenue). Despite non-negotiable fees making up over 90% of this Client’s external payments fees, RPGC was able to identify savings up to 20% for the Client’s TCOP.



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What results did you obtain through RPGC efforts?

From those recommendations, we were able to get the investments we needed to build a stellar payments analytics team. I'm proud to say we have some of the most advanced analytics capabilities I've ever seen. It helps being from Microsoft obviously but without that original direction, we probably would have been a bit more difficult. As a result, we can focus on problems that and pinpoint opportunities for improvement. Our approval rates for 1x transactions have improved about 7% overall since we launched these tools and contributed hundreds of millions of incremental revenue. We have also made great progress on Cost of Payment lowering our costs through optimization initiatives, contract negotiations, establishing commercial redundancy and what I call "constant compete".

How does RPGC compare with other consultants you've used?

I have 30 years of payment experience myself, so I frequently find that with other companies I end up training them. RPGC is flexible and was able to change course quickly. They have continued to answer inquiries and provide introductions well after the engagement was complete. Positive experience overall.

Would you hire RPGC again for a similar project?

Absolutely.

Dan German, Director – Payment Provider Management
Microsoft

Solution

From a negotiating standpoint, this meant improving pricing and service levels offered by providers. RPGC identified low cost payment instruments for the Client to implement in order to increase customer adoption and satisfaction. Plus, suboptimal acquirer and processor contracts were identified for unbundling and renegotiation.

Tactically, RPGC determined strategic priorities from functional, organizational, operational, risk perspectives to drive this objective. The Client enjoyed savings thanks to reductions in unnecessary costs from interchange downgrades, unnecessary authorizations, penalty fees, and cost-effective transaction routing to maximize interchange arbitrage.

To track the program's effectiveness, the Client implemented sophisticated dashboards and transaction expense models to provide an immediate feedback loop. This measurement coupled with checkout flow A/B testing has enabled the Client to optimize the payments function not just for cost savings, but checkout conversion. By directly investing in their payments platform and staff, the Client's payments team are better able to support legal, finance, marketing, engineering and operations.

Finally, this Client also followed through on RPGC's guidance to establish dual payment processing paths in key territories that has not only provided business and technical redundancy, but has also provided better vendor accountability and pricing.

Conclusion

This Client was able to leverage RPGC's recommendations to create strong cost savings and enhance market growth by introducing new local payment methods. By moving to a multi-processor environment, this Client is able to keep all of their vendors accountable and is protected against any outage. Internally, the payments group now has visibility from the C-level suite and has been provisioned the tools required to strengthen the function further.