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How To Recover Credit Card "Declines" In Today's Economy... Even If You're A Small Business

An Interview With Paul Larsen

Dear Student,

I'm Michael Senoff, founder and CEO of HardToFindSeminars.com.

For the last five years, I've interviewed the world's best business and marketing minds.

And along the way, I've created a successful home-based publishing business all from my two-car garage.

When my first child was born, he was very sick, and it was then that I knew I had to have a business that I could operate from home.

Now, my challenge is to build the world's largest free resource for online, downloadable audio business interviews.

I knew that I needed a site that contained strategies, solutions, and inside information to help you operate more efficiently

I've learned a lot in the last five years, and today I'm going to show you the skills that you need to survive.

It is my mission, to assist those that are very busy with their careers

And to really make my site different from every other audio content site on the web, I have decided to give you access to this information in a downloadable format.

Now, let's get going.

Michael Senoff

Michael Senoff

Founder & CEO: www.hardtofindseminars.com

How To Recover Credit Card "Declines" In Today's Economy… Even If You're A Small Business

Internet merchants know the problem all too well. You get a customer signed up for recurring credit card payments for your subscription site, but when the expiration date changes for their card, you can't bill them anymore. Although "guessing the new expiration date" may work sometimes, it could also get you into trouble with the credit card companies if you violate their regulations.

Paul Larsen specializes in bringing solutions to merchants for common credit card problems like the one mentioned above – and even more complicated ones as well.

And according to him, there are two main reasons cards are declined – missed payments and over-the-limit spending. While the accounts may still be good, it will probably take a thoughtful and strategic approach in order to recover those declines. And in this audio, you'll hear how to do it, the right way.

You'll Also Hear…

- Why "contacting the customer" when there are problems only works about 10% of the time and what to do instead
- How to understand the coding for declined credit cards and design a recovery strategy that works for each
- The two different types of mistakes companies make when processing credit cards – error of omission and error of commission – and how to avoid making them
- The programs Visa and MasterCard have put into place for updated account numbers and expiration dates
- How many days you should wait before retrying a card
- Why asking for a second card on a customer application may not be a good idea – and some strategies that work
- Why you should never go blindly into affiliate marketing without knowledge of credit card fraud – and simple steps to protect yourself

Paul says he tries to help merchants deploy comprehensive decline-recovery tactics that work for their particular needs. And with 80 million credit cards shut down in 2009 alone, every marketplace is

feeling the hit, so every transaction needs to count. And in this audio, you'll hear how to make that happen for you.

Hi I'm Michael Senoff Founder and CEO of www.HardToFindSeminars.com. For the last five years I've interviewed the world's best business and marketing minds. Along the way I've created a successful publishing business all from home from my two car garage. When my first child was born he was very sick and it was then that I knew I had to have a business that I could operate from home. Now my challenge is to build the world's largest free resource for online downloadable MP3 audio business interviews. I knew I needed a site that contained strategies, solutions and inside angles to help you live better, to save and make more money, to stay healthier, and to get more out of life. I've learned a lot in the last five years and today I'm going to show you the skills you need to survive.

Michael: In a nutshell tell me your name, where you're located and what your expertise is.

Paul: Sure, thanks so much. My name is Paul Larsen and own and operate Paul Larsen Consulting LLC. What we do almost exclusively is bring solutions to subscription and recurring marketers and the solutions that primarily regards to transactional advantages that they can take advantage of to affect as many credit card charges as possible. We're in a time of great duress with credit cards and so fortunately card companies and some of the processes have made some good weapons tools and procedures available to help mitigate some of the travail that merchants are feeling today because of various things, which we can elaborate on if you'd like, but bottom line is that we enhance bottom lines by helping affect as many charges as possible.

Michael: Paint me a picture. Let's say you've got an internet marketer out there and he sells a subscription site, a membership site. And let's say he's got 10,000 members and they sign up for a $1 dollar and then they're charged $19 dollars a month on their credit card. Take me in the backroom of some of the challenges and some of the problems that this membership site owner is having; the stuff that you don't see on the frontend.

Paul: Yeah that's a great point. And of course as you know there's all sorts of different paradigms for subscriptions and including that very one that you just discussed as well as many subscription companies then billing customers on a monthly basis, some on an annually basis and what you've got now is a confluence of many

issues, but let's just talk about one and that is there has been an incredible number of reissued cards just in 2009 alone. You know we're coming off of the biggest breach in history with Heartland Merchant Services where 130 million card account accounts were stolen.

Michael: So people understand you had 130 million credit cards stolen so you have all these consumers 130 million of them who have maybe subscription payments with merchants and then instantly those cards become null and void because they have to be reissued.

Paul: Yeah in truth not all 130 million card accounts were active and not all issuers determined that all those cards need to be reissued. But even if, and we know it's true, that a small percentage of those cards were reissued, well you know 10% of 130 million is 13 million cards, and of course it was more than that, and if 13 million cards were reissued and on those cards were lots of recurring charges well what happened of course at a point and time like that is several bad things happened. Number 1 not everyone will remember to reattach.

Michael: What does that mean? I want to really dumb it down.

Paul: Okay.

Michael: And by doing this let's go back to our example of Mr. Internet Marketer who's got an internet site with 10,000 people who sign up to pay $19.95 a month and you have this credit card breach. So a percentage of those 10,000 because of this breach are going to come up decline they're not going to go through for that business owner correct.

Paul: That's absolutely correct.

Michael: And so do they say declined?

Paul: Yes they do.

Michael: What is the typical merchant who doesn't have maybe your expertise or knowledge, what does he do when he gets a declined card someone who's unaware?

Paul: When he gets a declined card he may try it again. But of course if it's a card that's been reissued then that incumbent card number is no longer any good so you can retry it as many times as you'd like and it's not going to go through.

Michael: But it will say declined.

Paul: It will say declined and then most merchants will recognize the difference between - some processes give pretty clear definition about what the decline is, so in this particular case if it's related to a card that was reissued well the old card account number is no longer good. That will come back to the merchant and the merchant will realize I've got very little chance of getting any success on this even if I retry it. So then they'll begin their blocking and tackling methods with the customer, emailing them, getting in touch with them, letting them know that their card declined and trying to secure a new payment method to continue the description with the customer.

Michael: Alright why do you call it blocking and tackling methods?

Paul: Because at the end of the day even the greatest marketers in the world have a difficult time reaching customers in that way, getting their relationship reenergized once this involuntary activity happen it's very difficult. We find most of our merchants tell us that the best of their proactive abilities to get customers to provide information to update accounts is 10%.

Michael: Okay so that's issue Number 1 these big credit card breaches that nullify millions of cards which take a hit on your membership subscriptions right there. What are some other challenges in the marketplace?

Paul: Yeah you've got that. You've got kind of related in some way, and this is also related to the economy, is you had a massive shredding of plastic. So proactively issuers have shut down 80 million credit card accounts in 2009.

Michael: Meaning people are getting rid of their credit cards.

Paul: Meaning issuers are shutting them down.

Michael: Oh issuers like providers who provide credit cards.

Paul: Right I mean yes you are right some percentages that is us as consumers trying to be a little bit more responsible about our habits and practices and so we may be cutting up maybe a piece of our plastic, but most of the this is a result of issuers taking marginal customers, customers who don't use their cards all that much and just shutting them down. American Express was offering some of

their platinum cardholders up to $300 dollars just to shut down their account.

Michael: Oh really. So how many millions of cards have been shut down?

Paul: Eighty million just in '09, 80 million fewer pieces of plastic in circulation.

Michael: What are you expecting for this year?

Paul: I believe that that probably has settled but just kind of harkening back to what we just talked about, of course there's no telling when the next breach will come. And then the other thing that's causing, this is all regards to kind of the viability of credit card accounts. The other thing that happens all the time is fraud and most Americans in the last year or so have received some sort of notification from their card issuing bank saying something along the lines of "Your card may have been compromised just call us at 1-800 whatever and we'll shut that account down and reissue you a new one." I mean that's happening all the time. And that might be because of some potential fraud it might be of course the breaches automatically do that and then the shredding of plastic just has created a very difficult circumstance in '09 and '08 really. But we think the shredding has stabilized but you just never know about the fraud.

Michael: How about the state of the economy with people just maxing out their cards their limits.

Paul: Well you got a couple of things. Americans always have a love affair with credit limits so that's our culture that has never gone away but now on top of that credit limits were just lowered period. Almost every consumer had their credit limit lowered no matter what their demographic was credit limits were lowered. So if you've already got a culture in which the majority of Americans have at least one card that's very close to or over their credit limit now reduce credit on top of that and you're up against it.

             So we see that insufficient funds decline is a huge issue. And so it takes a real thoughtful handling of those declines, because again they're related to accounts that are theoretically still good and have not been shut down. So those accounts need to understand that they need some time to get right with their bank again. And so having a thoughtful approach to potentially recovering those declines is more important than ever. The one related issue to credit limits is delinquency in payment. And so you've got every American with at least one card that's behind by at least one

payment or more. That's a probably too but again the card is good so it hasn't been shut down so there's reason to apply some rigor to recovering.

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Michael: I see. So if I'm charging a customer's card and it comes up decline the card can still be very valid but the credit card company could have stopped it from going through because he's delinquent on a payment.

Paul: Delinquent or over the limit and those two are still the Number 1 and 2 reasons for decline.

Michael: Oh really.

Paul: Oh yeah. As bad as the breaches have been and they've really been bad, and as bad as the massive shredding of plastic has been and it's really been bad, still the big issues are really related to the current state of that customer's account in relationship to credit limits in delinquents.

Michael: And so a credit card company, if someone's delinquent one payment the card company will stop the activity on that card.

Paul: It's really up to each individual issuer they all have their own algorithm regarding what will be approved and what will not. And it might be all the way down to the customer level, the customer's history, but all that is taken into consideration in making the final decision as to whether or not to approve transaction or not.

Michael: Now a merchant when I'm charging and running cards through monthly and I'm getting these declines it's like I'm blind I can't tell what the real reason is I can only guess that they don't have money, that they're maxed out that maybe there's been a card breach.

Paul: It depends on your processor. If you have a processor of worth, of value, they do because Visa and MasterCard gives the processor back a fairly definitive answer regarding the reason for the decline.

Michael: And are they all coded?

Paul: Yep they're coded. And so if you understand the coding from your processor you can then create a decline recovery strategy using

tactics unique to the different code you're getting back. Quite frankly that's what we help merchants do is really deploy comprehensive decline recovery tactics.

Michael: Okay and I want to talk about some of those solutions, but take me back where you really hone your skills. Can you tell me the story?

Paul: It was back at a merchant that I began working for in the early 90s and when I first went there it was as a Director of Operations and really didn't have that much experience with credit cards at all other than the ones that I had in my own wallet because I had previously been at Readers Digest where credit cards were completely absent from that marketing motif. But quickly realized that the project that I was now involved in was about changing consumer behavior regarding the purchase of magazines and this would be ultimately all credit cards, all of the time, all order renewal. That required us to eventually, and we can look back with fondness at those days in the mid-90s when we thought it was volatile then but we wished we were back in those days when there were only a handful of issuers of credit cards. There was no fraud there was no uniqueness really to credit cards. There was a regular card and a gold card and there was nothing co-brand and the competition wasn't all that great and all was kind of good with the world, but even then we didn't like declines.

And so we'd work with our processor to really look under every rock to find every weapon tool method that we could find to affect the greater bottom line performance in credit card processing. And in doing that we ended up working our processor, quite frankly, in kind of expanding things that actually could be done and we're kind of on the forefront of even creating new tools and weapons, and convincing even credit card companies that there's good reason to give greater consideration to recurring or subscription charges because of the downstream revenue that's associated with it and the realization that we're all going to forfeit that if we don't figure out ways around these unintended problems with their consequences.

Michael: Okay so let's go back to our imaginary company selling a 1995 subscription. We've got 10,000 members who've signed up to pay for that. What are some of the big mistakes that company may be making or that I maybe making when it comes to processing credit cards?

Paul: Sure that's a great question. Well the mistakes come in two distinct flavors errors of omission and errors of commission. Mistakes of the omission type are the failures to tap into the programs that the

credit card companies themselves have made available to help meet and overcome some of these churn challenges. You've probably heard of it but the Visa and MasterCard Account Updater Programs.

Michael: I don't know what that is tell me.

Paul: Well Visa and MasterCard have programs in which their issuers contribute updated account number and updated expiration date information. And if you work with a processor who has tapped into that pool or can tap into that pool you can now then mitigate a significant percentage of this churn, these breaches for instance, and this fraud where new credit cards are reissued you can proactively through these account updater programs get the fresh information and ameliorate the situation.

Michael: Okay so for example, my imaginary company let's say this week I got 30 declines and then I can tap that new updater information but when my customer's committed to paying $19.95 a month I don't have to go back and get his permission to get that updated information, I can just grab that information and charge the card and update it myself.

Paul: That is correct. The way most merchants do it is they're constantly sending through their processor/acquirer say all of their accounts that are going to be built in five days and it goes up to the account updater program that's scrubbed the fresh information if any it's sent back through the processor to the merchant just in time for the billing event because we make sure all of our merchants tap into this program because it's so powerful. We certainly did see in 2009 crescendoing volume of updates. And so to not be tapped into that means that many, many, customer relationships imploded that really did need to.

Michael: I am assuming you're dealing with companies that have very large files. What if it's a small business who has 1000 memberships?

Paul: Yeah that's a great point. Just between us one of the things that I love about our particular business is that we do have merchants very, very large but we also have merchants very, very small. It's just one of those particular peccadilloes of ours that we love to help small merchants establish themselves on a proper foundation now so they don't have to worry about these things later. Great news about updater this is one thing the card companies did right. The purpose of updater is to keep customer relationships alive so that everyone in the food chain from the customer all the way through to

the issuer is satisfied. Everyone gets their money or their product alone the way by virtue of this. So Visa and MasterCard all they charge you is an enrollment fee but there's no more monthly fee, after that you only pay for every update you get back.

Michael: How much is the enrollment fee and how much do you pay for an update?

Paul: I think the enrollment fee is $300 bucks all in and then that's for life. And then the update fee depending on your processor because that fee will come through the processor is anywhere from a dime to a quarter a piece.

Michael: Wow that's nothing. So when you say updater or let's say I have Link Point, I don't know if that's my merchant or processor.

Paul: Yeah or gateway.

Michael: Or gateway. See yeah that's the thing.

Paul: See that's the problem. And one of the biggest problems for merchants is actually scaling the language barrier and understanding the different let's put it this way, transaction handlers. The truth of the matter is to the extent you can you'd want as few entities handling your transaction on the way out and on the way back from Visa, MasterCard simply because A) you're probably paying each of them a fee and B) you know what happens when transactions are in footballs or handled too much things get fumbled and reinterpreted as they're handed off from one entity to another. So that's not anything that we're necessarily going to go through today but it's really important that folks understand the difference between a gateway, a processor and an acquirer.

Michael: I got to ask you, okay so I use this thing LinkPoint Central online, I'm in there and it says First Data.

Paul: Right.

Michael: So who is First Data?

Paul: First Data is your acquirer; LinkPoint would be your gateway probably.

Michael: And then what's a level behind the gateway?

Paul: In theory as a merchant you don't need a gateway you can go directly to a processor…

Michael: I could.

Paul: … or an acquirer. Yes you could. But if you're a merchant that's small, and especially if you're not recurring but a lot of recurring subscription merchants have been caught in this web you are looking for an easy simple way to get processing. These LinkPoints, Authorized. Nets and I'm naming names because I don't hold any of them in low regard. They play a role in eCommerce but unfortunately they're all things to all people so when it comes to subscription processing there's going to come a time very early in the customer's life when they realize that to use somebody's gateway and to even use somebody's processors is counterproductive because recurring is a discipline. And so for instance very few of these gateways, say for instance make account updater available. And so if you're a recurring merchant and you have any aspirations, I mean you just simply have to be using the account updater program. To not have used it in 2009 meant that your bottom line eroded anywhere from 3% to 12% and it didn't need to.

Michael: Right that's powerful. So a small business like our example of our membership sites 1000 members, who could they go to even though they're small that would have access to that program the updater?

Paul: Visa and MasterCard force all engaging with their account updater programs to go through processors. So you have to actually be processing your transactions with a processor who's hooked up to account updater.

Michael: Alright and you can find that with some Google right.

Paul: You could.

Michael: Okay we're talking about biggest mistakes that's great. So that's one big mistake.

Paul: That's like preemptive best practice that you can use in the battle against churn and then reactively you want to be able to identify declines and put them through a decline recovery program. And if you do because we do and all of our merchants produce their own kind of internal reports that show the P&L on recovery by retry attempt over time we know beyond the shadow of a doubt that it's

really important to retry their decline and not just in a haphazard way. As a matter of fact, you need to be strategic about it because Number 1 you don't want to do it in such a way that violates the Visa MasterCard regulation in retrying.

Michael: What's a violation? Give me an example.

Paul: You can't what they call try to hammer the system into submission by retrying every day for 30 days. As a matter of fact according to the Visa you got to space your retries out over at least four day intervals and we would recommend at least that. And don't forget if you're going to recover declines in some measure it's related to a temporary problem that the customer has with their issuer, maybe credit limit, maybe delinquency, probably 95% are those two things. It's not about retrying cards five times over the next five days, well it's about a customer billing cycle that's 28 days long and making sure you have a recovery effort that encompasses that as much as possible.

Michael: Why don't you reveal through your research if I've got a decline what the best decline recovery program would be? How many days should I space it apart?

Paul: Well I would say six. You never want to do it times seven, you never want to do it every week on the same day because you might always be retrying a customer's card the day before payday and they would always have that same problem. So a lot, to be quite honest with you depends on how much you pay for authorizations to your processor. So we take a bunch of things into consideration because a lot of processors charge per authorization attempts. So we take that into consideration, but all things being equal we like the every six day retry timeframe that way you're trying on a different day each week. You can go out through a billing cycle to Day 30 with five attempts or, and if you're producing the kind of report that you'd like to that shows just how effective you are in each one of those attempts you may very well find as we do with almost all of our merchants that for certain kinds of declines, not all declines, but especially for insufficient funds declines it may be worth it to even go a couple of times into that second billing cycle.

            Now it can't always be the case because some continuity merchants and publishers they're serving products right so they kind have to make a decision as to whether or not the card is good so that they don't send out the next installment of whatever, but some of them have systems that can delay that depending the receipt of a good payment. But in this day and age where a lot of

the subscriptions are for content only and there really aren't that many cost of goods and just opposing the kinds of great recovery you can get against what everyone knows is negligible recovery by trying to pester the customer to giving fresh information, we feel strongly that not irresponsible but responsible, intensive decline recovery through recycling is very, very powerful.

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Michael: So bugging the customer and emailing them saying "Hey, oops your credit card declined can we get another number, another expiration date" found that to be the most unproductive.

Paul: Yeah we have many dozens of merchants, and I would say that well over 90% of them, at least allow greater than half of the recycling to go through before they even mention to the customers that they have a problem because the recovery is fairly effective. So let's just say you're Merchant *X* and you have a customer on a monthly billing paradigm and everything is going smoothly and all of a sudden Month 4 you get a decline and now you've set the stage to retry it in six days and then try it again after that in six days. Well if you're going to get 25% recovery on that first billing - again these are numbers I'm just throwing out there - and not unreasonable numbers you don't want to be getting that first decline and then sending a message out to your customer saying we had a problem with your card, but then oh by the way on Day 6 you go to retry it and it's good, I'm sorry customer I was wrong your card is fine. You don't want to send mixed messages.

So most companies we help them evaluate where it makes sense to begin the communications with the customer about the problem that they have. But since recovery is very powerful in the first two or three attempts most of them won't engage in the customer until at least - and a lot of them wait to the recycling is completely done and it's a proven kind of fact that they're not going to get it to go through before they engage to the customer on the problem.

Michael: Alright so what's another mistake merchants are making? How about when they gather the information on the order form? Have you found asking for an alternative card a good strategy?

Paul: Well that's a controversial one because you got to really be clear with the customers why you want that and that can often be a surprise to them. So the truth of the matter is very few merchants

actually do that. I think one of the interesting data points that we're seeing has been confirmed by some of our merchants, I think we've published it once in a conference and I know that one of our merchants allowed the data to be made public, and that is something as simple as the security code, the CVV as they call it, making sure that you ask for that. That's something that obviously increases protection and it also now seems to be that we've turned the corner to where abandonment is more likely when you don't ask for it than when you do.

Michael: What do you mean by that?

Paul: Well marketers used to be really concerned that if we ask for the CVV are customers going to bail because you know with direct marketing anytime you have to ask customers for extra information they're likely to bail. But now it seems like most people who do transact on the web been doing that for a while in their experience and now the shoe is on the other foot, where if you're a merchant and you're not asking for CVV, they're not going through with the sell because they're considered about your lack of concern about security. And then the same merchant and a couple of merchants have gone the extra mile and said "Hey not only does abandonment decrease but conversion to the subscription actually increases with that kind of customer."

Michael: So when we talk about declines I was reading somewhere here about why expiration dates no longer matter.

Paul: Well they matter in that you would get a better approval, all things being equal and the account number is good but your expiration date has gone stale.

Michael: Like this is a big problem for me. I have people on a membership site their card comes expired and I can't charge it.

Paul: Yeah and the saddest thing about that is of course that in fact as a merchant there's actually a problem you want because stale expiration dates as they accumulate on their file mean that you got customers of long standing. So that's exactly what you want. So therefore the pity of losing customers because the account number didn't change it's just that every two or three or four years the issuers issue new plastic just with new expiration dates on it. The fact that you have customer relation implode because of that is absolutely ridiculous.

So a number of years ago the card companies did a couple of things to really try to limit that problem. Number 1 they created what's known as the Recurring Indicator. And again this would be dependent on your processor and whether or not they accommodate the recurring indicator. And you can always tell the processors who have a predisposition and have skill in processing recurring merchants. And if you ask questions no processor who's skilled and experienced and disciplined in recurring that would say "No I don't offer account updater." But if you ask your processor hey - and you're a serious recurring merchant even if you're not big but you're serious and that's your business and you ask "Hey can you offer an account updater?" Well if they say no after it being available now for seven years I think you'd kind of have to say "Well I'm not so sure this an acquirer processor that is ever going to." Well they're certainly at this point and time are at that discipline in recurring because account updater is really an important parcel, as is this recurring indicator that was created by Visa and MasterCard, American Express about "Man it must be eight years ago now." It's a marker that you include as a merchant in your authorization transaction for the recurring charge that indicates hey, this is a recurring charge.

Michael: What do I need to do as that merchant to make sure that that recurring indicator is on that card?

Paul: Well that's a great point because in the initial sell, whether it's online or on the phone or in the mail, you don't need the recurring indicator at that particular point and time. You got the customer online, you're doing your authorization, and you really don't need the recurring indicator. What the recurring indicator though then is meant to do is be included in ongoing recurring charges so when it's time for the auto renew, whenever it is…?

Michael: Right. Right.

Paul: You include the recurring indicator in a particular field in the authorization record that goes out to your processor and they forward that along with the transaction into the system. And it was designed so that the issuers would see that this charge is related to a subscription and that it was just kind of a notification that, hey if you decline this card at this particular point and time just know that you're declining this and all the downstream revenue that is associated with it. And so it was an opportunity to create another factor in the algorithm for approval and it might get the issuer a greater pause about declining it because they would also be

forfeiting the downstream revenue. So that was one reason for the creation of the recurring indicator.

Michael: Alright let me ask you this. So let's say I have a subscriber and I enter his data into my order form and then he's on a recurring payment. So I have a field that I can click that says recurring payment and I click yes. It says charge to the customer once every month beginning at this date and after this date retry transactions. So in this form here when that goes to the processor and because I program it to hit the card every month is that my recurring indicator?

Paul: Whatever your processor requires from you in that required layout would be a field for you to populate the recurring indicator.

Michael: It would say on their recurring indicator.

Paul: Right. Who'd probably be what's known as the transaction type field or something that sounds like that this is a recurring transaction. So again the customer came on with you, you charge them the first time now it's time for their first rebuild, automatic rebuild.

Michael: Right.

Paul: You send the transaction to your gateway or your processor. And if you're with a processor that accommodates the recurring indicator there'll be a place for you to put that.

Michael: Alright so I need to ask my processor are you all handling recurring indicators.

Paul: Exactly right.

Michael: And I want one that does because there's something with decline.

Paul: Yeah because it does two things. Number 1 it alerts the issuer to the fact that this is recurring and all things being equal the issuer is less likely to decline it because it sees that there is downstream revenue that are going to be associated with this. But the other the reason to use this recurring indicator is to help with this expiration date problem that we talked about that really is an issue. Now the other thing that was developed almost a decade ago was for recurring merchants if you a stale date on file, obviously you collected a good expiration date when you began the relationship with them and when you qualified them as a customer you sent it

through with a good expiration date. If it goes stale during the lifetime of the relationship you should be able to in tandem using the recurring indicator send through your processor, depending on how they want it. So it depends on the processors.

Some processors want you to just go ahead and send the stale dates through, they'll recognize it as stale and they'll blanket out and send it through blank to Visa MasterCard along with the recurring indicator and it basically tells Visa MasterCard this is recurring, we qualified it the first time, it shouldn't need an expiration date from this point on. And for the most part that gets them all through. It doesn't get them all through but it gets a lot of them through.

Michael: So look at the bottom line you've got a company doing 10,000 subscriptions and they have a processor that has no recurring indicator, they don't know anything about it. And then you've got Company B here who's doing it the right way with the recurring indicator that's big bucks.

Paul: It's huge.

Michael: Tell me a story. Give me a case study from someone that you've worked with how huge this is. Paint a picture even if it's a big account.

Paul: Usually what ends up happening with someone like yourself when you get to the point, and maybe this is your experience and maybe it's not, but since you sound like you're working through a gateway and you might even be working with a processor that doesn't accommodate this, but let's just say for the sake of argument we come across a lot of merchants who when they have a stale date on file what they try to do is guess the new expiration date. And you can make some good educated guessing by chance incrementing the stale date that you have on file by a couple of years or three years. And by doing 10 of the best incrementing you can do you can probably get 40% to 50% of those to go through I don't know what your experience is.

Michael: I've done the guessing and I can get some to go through but a lot I can't. So if I was guessing is there a secret to how they issue the expiration dates? Is there a certain number of years? Are they all different? Is there a best guess?

Paul: Well they're all different but it's still fairly consistent on the month that it previously was just with an added two or three years,

although now we see cards that are being reissued with four or five and six years.

Michael: So if you keep the month the same and you can try it at two, three, four, and five and six years and maybe get it to go through.

Paul: That would be a thing to do when it comes to retrying you can't just do it on consecutive days because that's a violation of the Visa, you got to space it out. Remember you got to keep four days in between…

Michael: Each try.

Paul: Which is fine but it's much better to send if you're working with a processor who really is skilled in the art and science of recurring billing they'll tell you "Hey, just send it to us blank or send it to us stale and we'll blank it out." And they know what the issuer is looking for. And so we've seen as far as case studies are concerned merchants that come to us who are with the processors that required a date to be put in and we get 40% to 50% but then when we moved into a processor who knows how to handle stale expiration dates we'll easily double the performance…

Michael: Wow.

Paul: … of their best guessing strategy.

Michael: That's just huge.

Paul: It is huge.

Michael: What's some other strategies that can increase the recovery rate on these charges?

Paul: So you've got account updater as you know and we've talked about, you've got the recurring indicator, you've got then the optimized expiration date handling. You've got comprehensive decline recovery program. If you have a lot of American Express they have a program that they don't publicize very much it's called their Continuity Billing Service, which is really like Visa and MasterCard's account updater programs except that it's just something they quietly do behind the scenes for you. Or if they enroll you in that service it's a very powerful service and they kind of manage the churn behind the scenes for you reconnecting automatically your business to a new card of that customer's. Even

if they lost or had to have their previous one shut down that they originally ordered your service on.

Michael: Let me ask you this, with the whole mortgage debacle and the mortgage crisis and you hear about consumer credit that there's going to be a huge crisis like credit limits are down and people are going to have no money eventually because they're maxing out their cards. What's your inside take on that for the next couple of years?

Paul: Well you know what I'm certainly not an economist but I am a normal consumer like everyone else and it's interesting they just had the Merchant Risk Council which is a gathering of Card Not Present merchants, a lot of recurring merchants, and the Chief Economist of Visa was there. I was not able to be there but I could be wrong but from my understanding they did not present a rosy picture in the near future. It was a poll or maybe I can send you a link for it I just saw it yesterday, it was a Rasmussen Poll of all things which is usually more politically oriented, but it was a poll of bankers and others and their forecasting continued delinquency and credit limit issues of the same kinds of proportions as 2009. So again it really behooves merchants to do the due diligence here to deploy as many of these best practices as possible.

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             www.HardToFindSeminars.com.

Michael: Let's say I wanted to work with you and we talk and it's a fit and we do an analysis of what I'm doing, is it an hourly fee or?

Paul: It's rarely hourly because there's always so much more to this than meets the eyes.

Michael: Yeah.

Paul: What we try to do is enter a partnership that's so attractive to the customer that it's a no brainer for them. We want them to know that they're not going to be left high and drive. We can do an assessment issue recommendation we can even facilitate discussions with potential world class processors and then getting to the point of health and safety. And even the ongoing monitoring and layering in of enhancements because environmental conditions change over time. We tend to just have ongoing almost recurring relationships with our customers. I would say our average relationship with a merchant is three to four years just because the insurance policy we are, in addition to having helped them get

straightened out in the first place, we've done a lot of this in the last couple of years. Big merchants who have full time departments on credit cards has just come to us and said "Give us the onceover."

And so we've done intensive assessments on them and that would have been just a onetime charge. But we tend to price modest just because, that's not trying to be self-serving, but we know from our experience that why you often need to act fairly quickly it takes time to get to where you need to be.   A lot of recurring merchants have significant chargeback issues and problems. They've dealt with affiliate marketers and they just didn't know what hit them. And so we're in the business of not only doing those things we just said. But we're experts at chargeback mitigation helping get that under control because in this day and age Visa and MasterCard particularly are sensitive to chargeback issues and then really going hard after merchants who can't get that under control.

Michael: You mentioned affiliate marketers, so an online marketer who has an affiliate program that could come back to bite them right.

Paul: Oh my goodness.

Michael: Give me a story because this is really important, there's a lot of online marketers who listen to this stuff.

Paul: Well I could tell you the story and I can't name names.

Michael: Okay.

Paul: Some of your most trusted brand names that you would never believe with chargeback rates historically that didn't even have a pulse. And they got into affiliate marketing did nothing to protect themselves because they didn't really know how to protect themselves, trusted the affiliate network, and then just got the kind of garbage that almost immediately put them in deep trouble with Visa and MasterCard. And you get addicted to the volume only to find out that most of it it's not good.

Michael: And you lose your ability to accept credit cards.

Paul: Absolutely. Or you have to completely shutdown this channel which has given you so much hope. And so there are ways to do it and a lot of it has to do with the protections you put in place, whether it's not just CVV but GO IP address blocking and Velocity Screening, and all that kind of stuff. But a whole other group of third parties has arisen to try to help merchants operate with

affiliates and not get burned. And you've got this third party fraud protection companies, the certified accounts, 41st parameters, have all risen up in the last few years to try to help merchants be able to sift out the bad stuff allow in the good stuff and increase their bottom line. But to go into affiliate marketing blindly and think you're not going to be negatively impacted, well you have to have lived a pretty good life to have that happen.

Michael: And it's just because you have no control over your affiliates and who they're marketing too.

Paul: Well yeah and that's the other thing, of course, and of course most merchants know by now that there arrangements with their affiliates need to be like net of charge backs, net of declines, net of refunds, all that kind of stuff.

Michael: Alright very interesting. You have a couple of reports on your Web site for anyone who wants to kind of educate themselves. Aren't there a couple of downloads? I saw a PowerPoint slide presentation that you did for Marketing Sherpa.

Paul: Yeah sure I think I have some things out there. I think there's a white paper that you can look at that talks about how to select your payment processor.

Michael: Do you have any samples of any? Oh I guess you don't want to endorse or recommend any. Just educate us on what we need and we can just go get it.

Paul: Yeah I can just talk to folks about that, not that they have to engage us. We give away as you can see, as we're doing now, a lot of free advice. But the interesting thing at the end of the day is how to parlay all of this. And that's what we try to help merchants to put this in place in a sensible fashion. And then understand the key performance indicators that result to see if what we've done is optimized and how to continually enhance them. And if you're with the right kind of processor the backend reporting system is robust. And then that puts is all in a position to actually really read and digest the results of all that we've done.

Michael: So someone's listening to this and they definitely believe that they're with the wrong merchant tell me about what are some of the services you provide. Let's say someone heard this, they want to talk to you, what's the best way for them to get in touch with you first of all?

Paul: Sure. Well the best ways are used through our Web site which is www.paullarsenconsulting.com or by phone at 845-896-1753. It's not just me we have an array of skilled folks who are experienced, not only in transaction handling, but also PCI compliance and security and analytics. A lot of merchants end up where they're at out of ignorance or out of expedience they wanted to get started and they reached out and they found and easy way to connect. But a lot of them also concentrate on price, what is it going to cost me and looking at their fees. And of course we believe strongly that you shouldn't overpay, but we believe also that performance, the kind of issues we just talked about today.

I wouldn't say dwarf fees is important but we believe at the end of the day aligning yourself with the best possible process at the best possible price deploying the industry's best practices for recurring merchants. That's what we help affect. We don't have any partnership with any particular processors. We have a strong understanding of who does what well. And also we have a strong understanding of fit when it comes to culture and a merchant. So we love to talk to prospects. We administer a fairly significant upfront survey and assessments so we understand what they're doing today, what they sell. And ultimately we don't force anything down their throats but we facilitate discussions with best in class so that we can help them to get to the place of health and safety and effectiveness when it comes to their credit card processing, because there's a lot of travail. In 2010 there's a lot of other extra added problems in store.

Michael: Okay perfect. This has been awesome this has been some incredible information. And I appreciate it Paul you sharing with my listeners, I really do.

Paul: I'm honored really. It's a privilege and I thank you for sticking with me.

Michael: One more time spell out the name of your Web site for anyone who wants to find out more about you and your services.

Paul: Sure. The company is Paul Larsen Consulting and that is the Web site. www.paullarsenconsulting.com, go there and get to us through that.

Michael: Alright thank you very much.

Paul: Michael, it's an honor and you're welcome.