

# Industry *Report*

**A First Financial USA White Paper**

## **Payment Processing Industry Overview: A look at the Major Players, Economic Outlook, Trends and Opportunities for Investors, Entrepreneurs, and Sales Professionals**

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**By: First Financial USA, Ltd**

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## Introduction

Imagine a beautiful spring day; a woman from Minneapolis is vacationing in a quaint Florida beach town. She rides her bicycle through the sunshine to a local French café for a croissant and a latté. She walks into the bustling establishment, places her order with the jovial café owner, and makes eye contact with an elderly gentleman in a corner table - who gives her a warm smile as he looks over his Wall Street Journal. She then hands the cashier her debit card, leaves the cafe, hops on her bike and heads to the beach. Ahhh, the easy life. But wait a moment, something just happened and it was really big! Back in the café, that smiling older gentleman watching the transaction with a smile - his name is Warren Buffet, the third wealthiest person in the world. What does Warren Buffet have to do with this story and what's he so happy about?

Most people never give it a second thought, they walk into a store, make a purchase, hand the clerk their card for payment and they're on their way. That transaction was 40 years in the making and engaged a system that handles trillions of dollars around the globe.

There is an entire industry behind making that transaction work, one that passes trillions of dollars through it. It is the same industry that has allowed merchants to prosper from higher transactions, and more frequent impulse buying. Because of this system we can make purchases over the phone and internet. We can fly to foreign lands and use the same card we used in Minneapolis to buy breakfast in the morning, lunch in Los Angeles, internet access on the airplane and breakfast in Hong Kong. Amazing!

It's the same system that allows the local plumber to come to your house, perform service and get paid on the spot. Yet, you don't have to pay him for 30 days if you use a credit card or rather than him wonder if your check is good, it comes right out of your checking account and into his. It allows him to operate more efficiently, lowering his overhead and reducing the cost to you.

This payment processing system has helped spur both the American economy and global economy and has brought us amazing ability and convenience. It has also made the creation of industries possible. Because of how we are able to pay, industries are born and people prosper. In this paper we'll examine the many connection points in the payment processing network, and the role of each.

### ► About First Financial

Our business runs on a core philosophy we call the "Spirit of FFUSA" - which includes providing merchants the very best service while adding more to their bottom line.

We create custom solutions for merchants. In addition to credit and debit cards (Visa & MasterCard, American express, Discover, etc.), we also help our clients establish their check services, gift cards, and web-based transaction acceptance systems.

Voted Best Places to work by Mpls. St Paul Business Journal five years in a row!

As one of the leading merchant services providers, First Financial has consistently been rated with the utmost credibility from the Better Business Bureau. To see for yourself, go to [www.bbb.org](http://www.bbb.org).

There are consumers using their credit and debit cards to buy goods and services, and merchants rely on this payment processing network to get those transactions converted into cash.

In 2010 Visa debit cards generated \$1,053 trillion, an increase of 10.3% from 2000. 2010 Visa credit cards volume was \$809.30 trillion, which was up 5.9% according to the Nilson Report.

Imagine if you had the opportunity to make money from all the spending that is taking place. By getting involved in the pass off between merchant and consumer, and getting in the middle of that transaction, you can prosper.

Opportunity Here!



Merchants love credit cards. In fact, according to Visa, payment transactions take place every second of every day in every corner of the world. Visa has built one of the world’s most advanced processing networks, capable of handling more than 10,000 transactions per second. They are accepted in more than 200 countries and territories across the globe.

In this white paper we will explore some reasons why Warren Buffet invests so heavily in this industry, how his analogy of “Toll Bridge Investing” applies, we will ask, “How can we benefit without needing to be a rich investor, a bank or a Warren Buffet?”, we’ll look at the competition and how FFUSA differentiates itself and finally we’ll answer the question “is this a recession proof industry?”.



#### AMERICAN EXPRESS RESULTS — U.S.

Total volume of purchases at merchants and cash advances generated by cards issued directly by American Express in the United States increased by \$52.28 billion or 12.8% to \$461.51 billion in 2010. This was a substantial improvement from the \$48.00 billion decline Amex experienced in 2009. The 42.6 million cards issued directly by Amex represented an increase of 0.3 million compared to a decline of 5.1 million in 2009.

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#### U.S. CONSUMER PAYMENT SYSTEMS

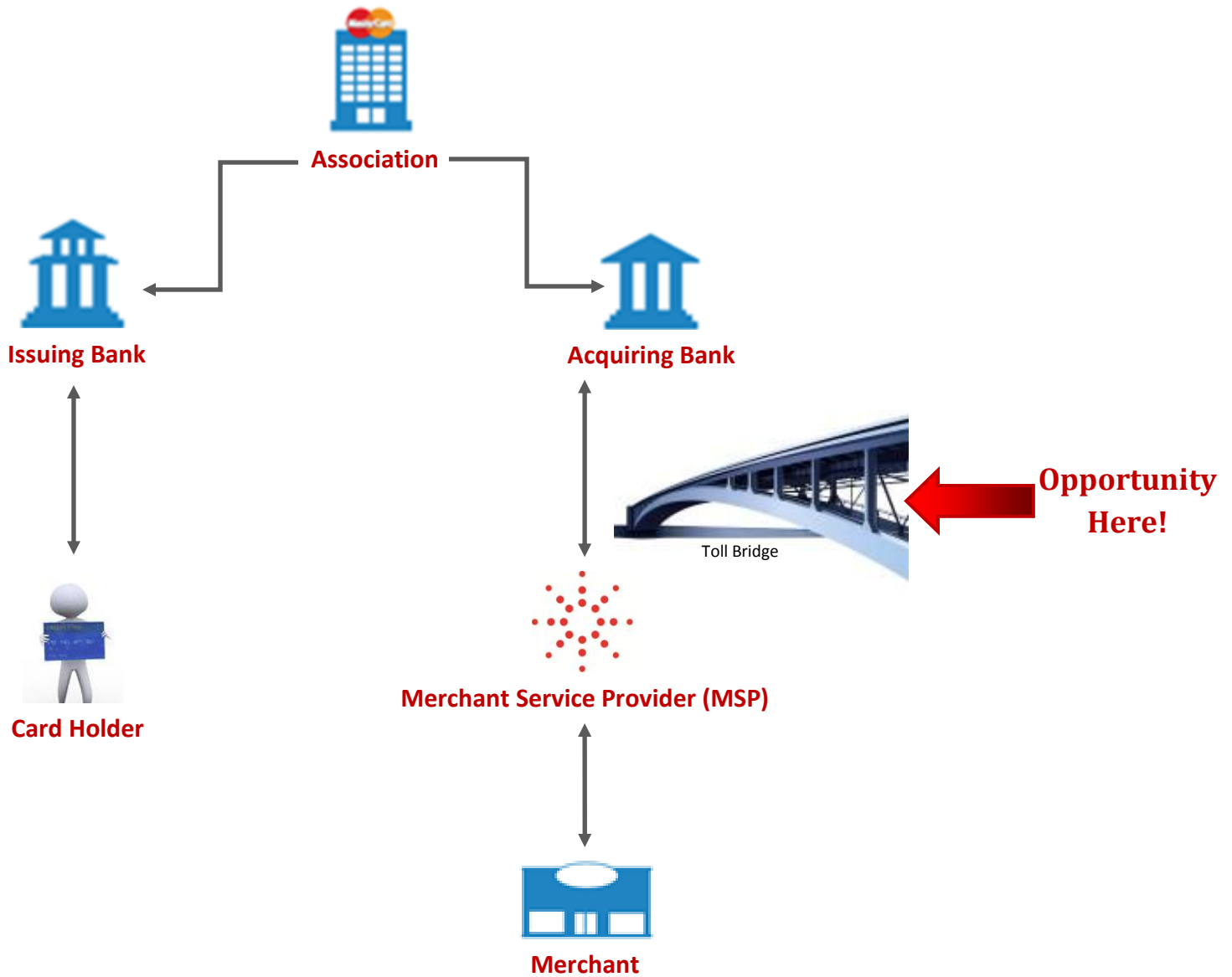
Personal consumption expenditures (PCE) calculated by the U.S. Department of Commerce’s Bureau of Economic Analysis totaled \$10.001 trillion in 2009. Of that amount, 76.8% was for purchases of goods and services or \$7.682 trillion. The remaining \$2.319 trillion was from transactions for which no payment was made.

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<http://www.nilsonreport.com>

# Understanding the Players

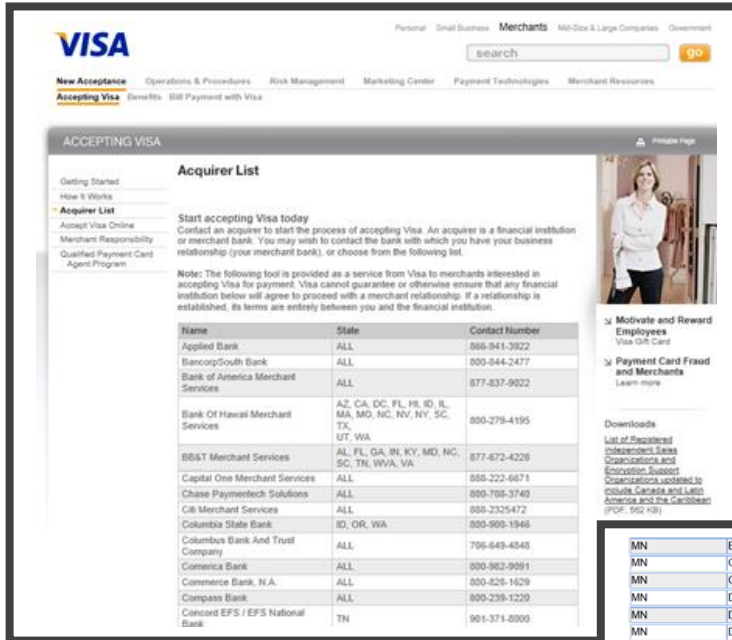
The payment card business can be somewhat confusing for people unfamiliar with it. It's not nearly as complex as you think. The following illustration is a great place to start:



Associations (MasterCard, Visa, Amex, Discover) traditionally do not offer their service to merchants directly- they leave that up to acquirers or Merchant Service Providers (MSP). The opportunity here is the gap between the acquiring bank and the merchant, the gap or “toll bridge” as Warren Buffet calls it.

# How FFUSA Fits into the Industry

Acquirers are big banks and yes, they set you up, but really their job is buying and selling money. The people who really do the work within the “toll bridge” are the service providers – independent sales organizations



## FFUSA is the Bridge that Connects the Merchant to the Payment Processing System






MN	BRUBER FINANCIAL SERVICES, INC.	-	ISO - M
MN	CARLSON LEISURE GROUP, INC.	-	ISO - C
MN	CPP NORTH AMERICA, LLC	-	ISO - C
MN	DELUXE CORPORATION	-	ISO - PPD
MN	DELUXE CORPORATION	-	ISO - C
MN	DIRECT SOURCE, INC.	-	ESO
MN	EASY CARD SERVICES, INC.	-	ISO - INT
MN	EASY CARD SERVICES, INC.	-	ISO - M
MN	ECOM LLC	-	ISO - M
MN	EXPRESS ATM SERVICES, INC.	-	ISO - PLUS
MN	FIRST FINANCIAL USA, LTD.	-	ISO - M
MN	GLOBAL BANKCARD SYSTEMS, LLC	-	ISO - M
MN	HIGHER STANDARDS, INC.	-	ISO - M
MN	LEAGUESAFE LLC	-	ISO - C
MN	LIEBERMAN COMPANIES, INC.	www.liebermancompanies.com	ISO - PLUS
MN	LIEBERMAN COMPANIES, INC.	www.liebermancompanies.com	ISO - M
MN	LIEBERMAN COMPANIES, INC.	www.liebermancompanies.com	ESO
MN	LION'S LYNK PAYMENT SYSTEMS INC.	www.lionslynk.com	ISO - M
MN	MERCHANT CREDIT CARD SOLUTIONS, INC.	-	ISO - M
MN	MIDWEST FINANCIAL PROCESSING	-	ISO - PLUS
MN	MIDWEST FINANCIAL PROCESSING	-	ESO
MN	MIL LIFE, INCORPORATED	-	ISO - C
MN	MINNESOTA DAKOTAS RETAIL HARDWARE ASSOCIATION	www.mdrha.com	ISO - M
MN	MONEYGRAM INTERNATIONAL	-	ISO - PPD

<http://www.usa.visa.com>

We take the entire processing system to the merchant and equip them with the right products (credit cards terminals, wireless, contactless, online systems, PIN pads) and services (understanding the types of cards they accept, transaction for their needs). We show them how to put it all together for their business type, create customizations that they may need, and support them when they have questions about transactions, cash flow, and security. For this, we are paid a piece of the fee merchants pay to turn that transaction into cash – virtually for as long as that contract is in existence.

# The Toll Bridge Effect: Why Warren Buffet Loves this Industry

In our opening story, we situated Warren Buffet in the same quaint French café as our happy traveler from Minnesota, and we posed the question, “why is he smiling?” Warren Buffet is smiling because he loves this business and he’s invested heavily in it. If you don’t know who Warren Buffet is, according to Forbes, he’s the third wealthiest person in the world. Check it out at <http://www.forbes.com/wealth/billionaires>

Rank	Name	Net Worth	Age	Source	Country of Citizenship
1	 <b>Carlos Slim Helu &amp; family</b>	\$74 B	71	telecom	Mexico
2	 <b>Bill Gates</b>	\$56 B	55	Microsoft	United States
3	 <b>Warren Buffett</b>	\$50 B	81	Berkshire Hathaway	United States
4	 <b>Bernard Arnault</b>	\$41 B	62	LVMH	
5	 <b>Larry Ellison</b>	\$39.5 B	67	Oracle	

<http://www.forbes.com>

Now that you know a bit about Mr. Buffet, let’s look at what he owns right now.....

Address		Position Statistics			
BERKSHIRE HATHAWAY INC 1440 KIEWIT PLZ OMAHA, NE 68131 (402) 346-1400		Report Date: 9/30/2011	Total Value (in \$Millions): \$49,047		
		Turnover (in Millions): 25			
Click on the column header links to resort ascending (▲) or descending (▼).					
Company	Class	Value (\$1000)	Change (\$1000)	% Change	Shares Held
Select a company below for more information.					
COCA COLA CO	COM	\$13,400,000	\$0	0.00%	200,000,000
WELLS FARGO & CO NEW	COM	\$8,603,840	\$236,964	2.83%	352,327,608
AMERICAN EXPRESS CO	COM	\$6,840,675	\$0	0.00%	151,610,700
PROCTER & GAMBLE CO	COM	\$4,932,985	\$0	0.00%	76,766,036
KRAFT FOODS INC	CL A	\$3,458,489	(\$199,822)	(5.46%)	99,467,624
JOHNSON & JOHNSON	COM	\$2,719,021	\$0	0.00%	42,624,563
WAL MART STORES INC	COM	\$2,138,455	\$0	0.00%	39,037,142
CONOCOPHILLIPS	COM	\$1,988,806	\$0	0.00%	29,101,637
US BANCORP DEL	COM NEW	\$1,630,021	\$0	0.00%	69,039,426
MOODY'S CORP	COM	\$996,501	\$0	0.00%	28,415,250
WASHINGTON POST CO	CL B	\$587,462	\$0	0.00%	1,727,765
M & T BK CORP	COM	\$395,582	\$0	0.00%	5,363,821
COSTCO WHSL CORP NEW	COM	\$356,896	\$0	0.00%	4,333,363
TORCHMARK CORP	COM	\$159,521	\$0	0.00%	4,235,819
SANOFI	SPONSORED ADR	\$139,872	\$0	0.00%	4,063,675
MASTERCARD INC	CL A	\$135,724	\$63,338	87.50%	405,000
U.S.G CORP	COM NEW	\$134,870	\$0	0.00%	17,072,192
GENERAL ELECTRIC CO	COM	\$126,235	\$0	0.00%	7,777,900
UNITED PARCEL SERVICE I...	CL B	\$97,200	\$0	0.00%	1,429,200
VERISK ANALYTICS INC	CL A	\$71,228	\$71,228	New	2,101,125

<http://holdings.nasdaq.com>

See anything interesting..? Wells Fargo (one of the largest issuers) American Express, and MasterCard (both Toll Bridges).

The screenshot shows an article on Investopedia titled "Buffett Says: Invest In 'Toll Bridges'". The article is dated Oct 27, 2009 12:52 PM by Sham Gad. It discusses Warren Buffett's investment strategy, specifically his reference to "toll bridges" as a metaphor for investments that provide a steady stream of income. The article includes a sidebar with navigation options like "Top Searches" and "Articles".

<http://stocks.investopedia.com>

## What does the Rest of the Market Think about This Industry?

Let's look at MasterCard & Visa.... It seems the world likes them as much as Warren Buffet!



<http://finance.yahoo.com>



<http://finance.yahoo.com>

## Is this Business Recession Proof?

The global payments industry is undergoing a massive shift – away from cash and check, to card-based and other electronic payments. In fact since 2001, credit and debit card purchases increased from 13% of payment volume to 27%, a compound **annual growth rate close to 15%**. **Rest assured this trend still has great legs!** According to The Nilson Report, we can expect the global card purchase market to expand by at least 11% per year through 2012, with particularly strong growth coming from international and emerging markets. Again, expect Visa to deliver even stronger growth. **This is precisely what we've experienced over the last 16 years at FFUSA!**

## That's Great for FFUSA & Warren Buffet but what's in it for Me?

You can, of course, be an entrepreneur and start your own business. Maybe you want to open up a restaurant. Running your own business is one of the only ways to really make a lot of money. The world is your oyster! But owning and operating your own business typically requires a lot of cash, financing and or risk, but if you have all of the pieces, it's *the* way to become financially independent.

Or, of course you can be just like Warren Buffet and invest in exactly what he does. You can invest your money at any level; there are publicly traded companies from associations (Visa, MasterCard) and banks to processing networks and merchant service providers.

Or you can personally get in and create those links – toll bridges. You can go out and put yourself in the transaction and make money on toll bridges; that's the route FFUSA has chosen... There's virtually no investment, and when you work with FFUSA, you have access to an organization that has established 1000's of toll bridges already. And, you're in business for yourself but not by yourself. If you qualify, we'll invest in you. Through your work with FFUSA we'll pay you for every contract you establish, and you can even qualify to receive income from those toll bridges even after you decide to retire (which can happen quickly).

Whether you want to be a local salesman and establish a small number of accounts, become a sales professional and participate in toll bridge revenue for life, or take this entire opportunity to a higher level, that's up to you.

## Don't all the Businesses Already Accept Cards?

Yes, most businesses do already accept cards - that's part of the beauty! They already understand the benefits of bigger purchases, more frequent purchases, spontaneous purchases and the ability for card holders to access tremendous spending power – they rely on cards as part of their cash flow. We don't need to talk them into accepting cards, we just need to show them a better program – and we're very good at that.

The competition typically pitches - "We're cheap!" Not a super dynamic pitch and not very valuable long term, because there's another salesman coming along shortly saying the same thing and there goes your client. Most businesses don't want just cheap, they want cheap plus great service. Most business owners want someone who *really* understands what they need and provides what's best for the business not the salesman. But how do you know what's best for a client?

We like to ask really great questions to find out what our client wants to achieve. From here it gets fun – and your client senses it. From here we create long term relationships. Our goal is to provide the level of service where our clients think to themselves, "You know, these guys are good.. I'd actually pay more than I'm billed." Now that's providing value.