



TSG EDUCATION SERIES

Payments Industry 101

PREVIEW

TSG (The Strawhecker Group) is a globally recognized analytics and consulting firm that supports the entire payments ecosystem, serving over 1,000 clients from Fortune 500 leaders to dozens of the world's most valuable brands. Trusted by industry leaders, TSG's strategic services, market intelligence, and analytics merge to empower clients with actionable and accessible information.

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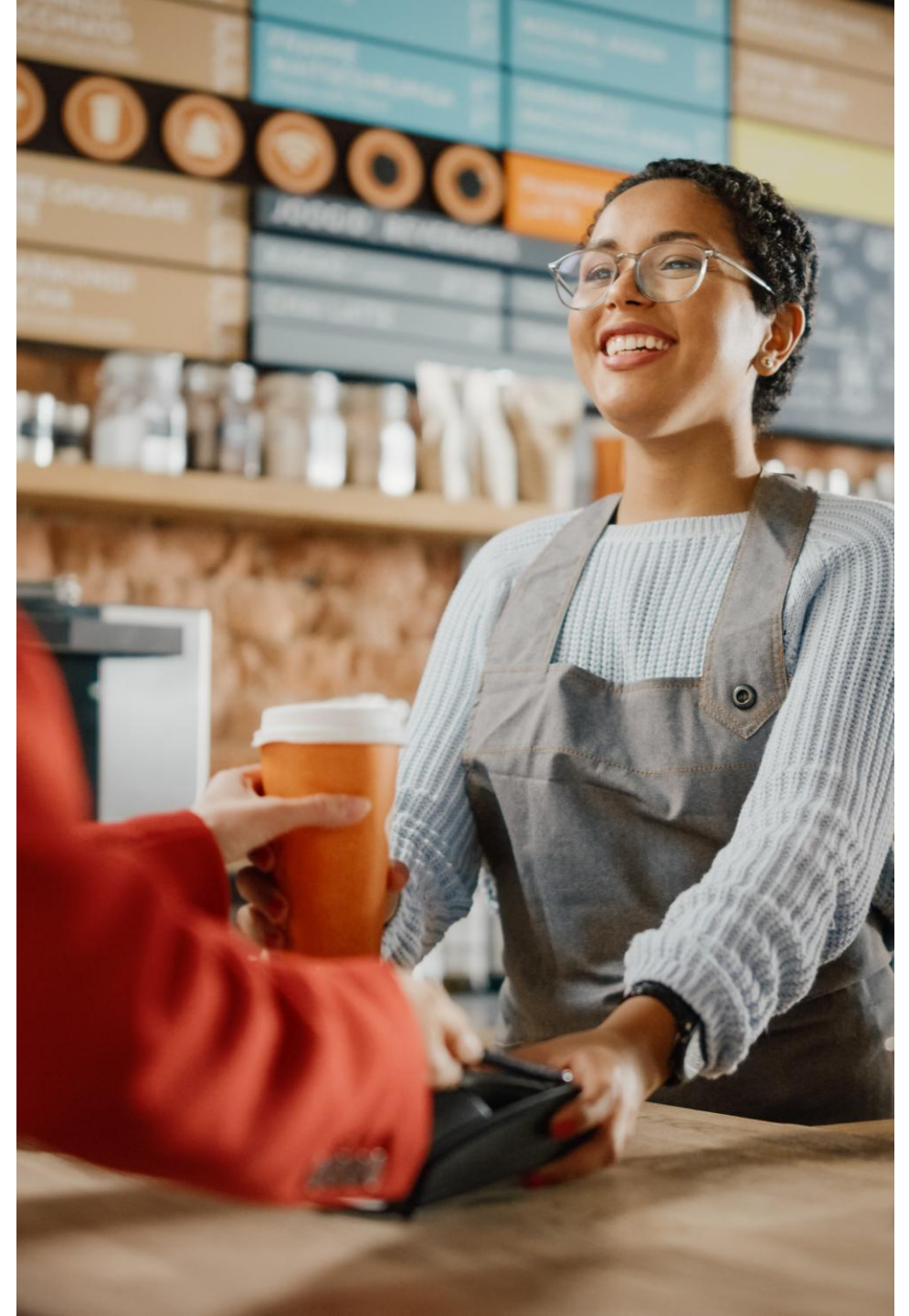
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TSG Payments Industry Education Series

TSG's Payments Industry Education Series offers an introductory overview on the core principles of the payments ecosystem, current trends within it, and potential future developments in payments. These reports are known as Payments 101, 201, and 301.

The way merchants and consumers initiate and receive payments continues to evolve as recent developments and advancements in emerging technologies affect the industry. These developments are driven by growing expectations from both merchants and consumers for payment interfaces that are faster, more secure, and easier to use.

This first report, *Payments Industry 101*, offers a foundational introduction to the payments ecosystem. It presents a high-level overview on how the industry operates and provides key concepts for building a solid understanding of the space.



PREVIEW

If you've ever sat through a payments conversation and found yourself wondering what an acquirer, gateway, chargeback, sponsor bank, token, or interchange rate actually is, you're in good company. The payments industry has a tendency to take relatively straightforward concepts and wrap them in enough acronyms and jargon to make almost anyone feel like they're missing something.

I should know. I've spent more than 20 years in this business, and I still hear a new term and have to stop and ask whether it's an actual innovation or just a creative way to repackage something we've been doing for years.

That's exactly why we created the Payments Education Series. Whether you're new to the industry, onboarding a team member, or simply need a refresher, this guide explains the fundamentals in plain English. It won't make you a payments expert overnight, but it will help you navigate the industry with more confidence and less confusion.

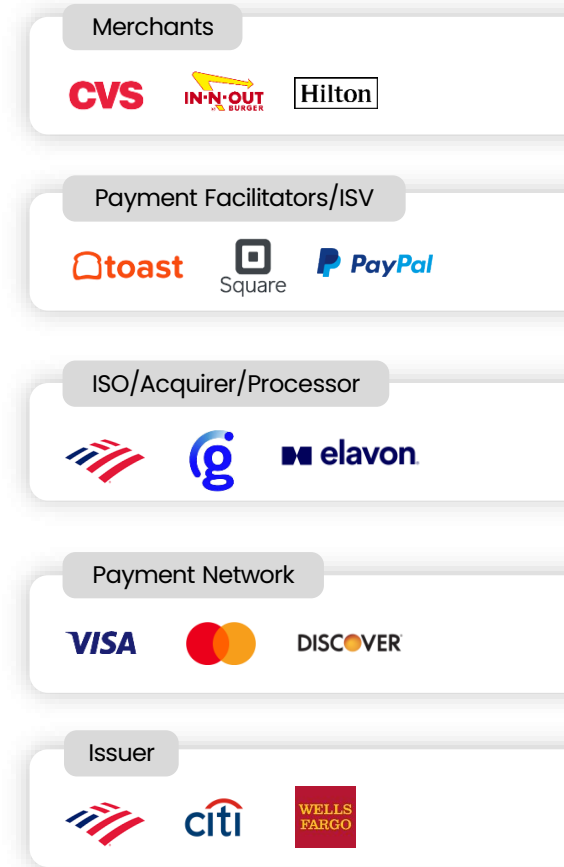
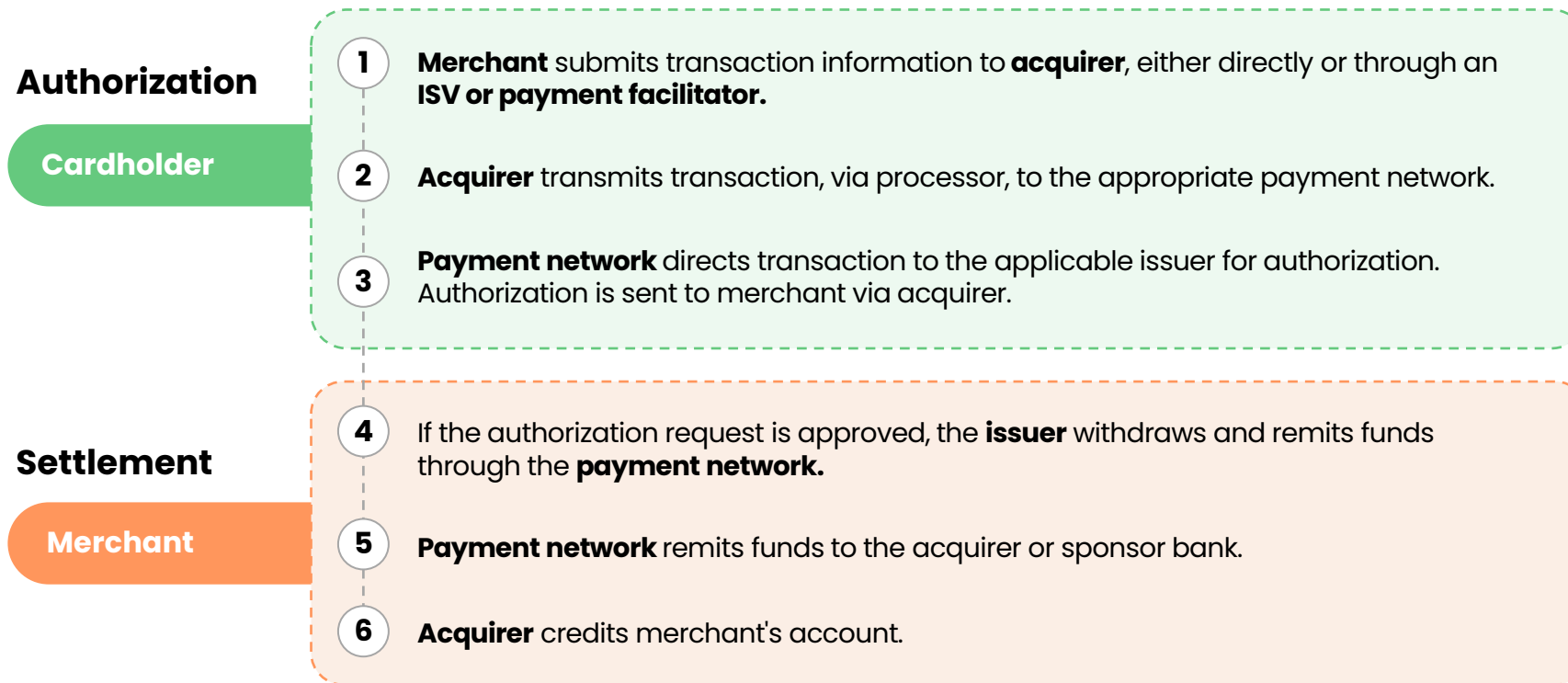
Thanks for reading,

Mike Strawhecker, *President and CEO of TSG*

Participants & Transaction Flows

Card-present transactions start at a point-of-sale device and flow through real-time authorization

In a **card-present transaction**, the cardholder completes a purchase by inserting, swiping, or using contactless NFC with their card. These transactions typically occur at a physical store location or point of service.

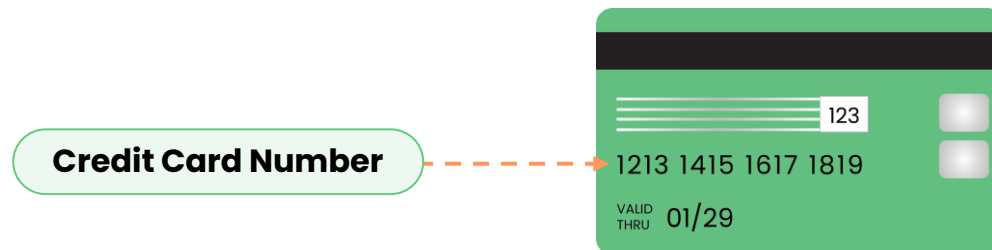


Participants & Transaction Flows

Anatomy of a credit card: breaking down the numbers behind every card

Credit Card Number/Primary Account Number (PAN)

- The first digit of a payment card number, known as the Major Industry Identifier (MII), identifies the card's industry type and is commonly used to identify the card network. For the major card networks, MII values are 2 or 5 for Mastercard, 3 for American Express, 4 for Visa, and 6 for Discover.
- The first six to eight digits form the Bank Identification Number (BIN), which identifies the issuer and card type, and is used to route the transaction for processing.
- The remaining digits, except for the last digit, are the cardholder's credit card account number.
- The final digit serves as a check digit and is used to verify the card's validity and reduce errors from mistyped numbers. It is generated using the Luhn algorithm, also known as the Mod 10 algorithm, which is a widely used checksum formula designed to detect errors such as mistyped or invalid card numbers.



Major Industry Identifier (MII)	
Identifier	Industry
0	ISO/TC 68 and other industry assignments
1	Airlines
2	Airlines and other industry assignments (Mastercard)
3	Travel and entertainment (American Express, Diner's Club, JCB)
4	Banking and Financial (Visa)
5	Banking and Financial (Mastercard)
6	Merchandising and banking, financial, or national assignments (Discover)
7	Petroleum
8	Healthcare, telecommunications, and other industry assignments
9	National assignments

Onboarding

On average, it takes 22 days for a merchant to begin processing payments once they've proceeded through underwriting

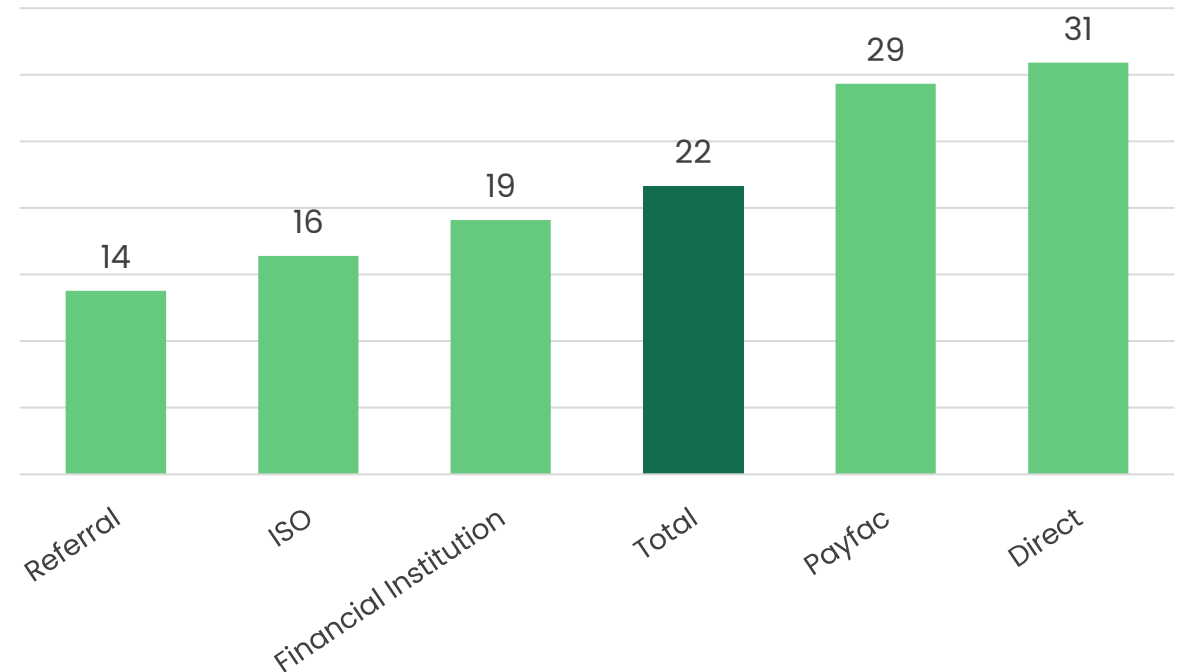
How quickly a merchant can be onboarded onto a PSP's platform from signing to processing is referred to as the **Activation Rate**.

Why is Activation Rate Important?

The stretch from merchant approval to first processing is a critical window that carries both cost and complexity. Every additional day a merchant remains inactive represents lost revenue and delayed ROI.

Traditional merchant acquisition is expensive. Sales cycles are long, underwriting is resource-intensive, and operational overhead is high. For many providers, the path to recouping acquisition costs can stretch beyond the first year of processing.

Activation Rate by Acquiring Sales Channel
(Days)



Merchant Acquisition Models

Sales channels, models, and operating models form the foundation of merchant acquisition and payment acceptance

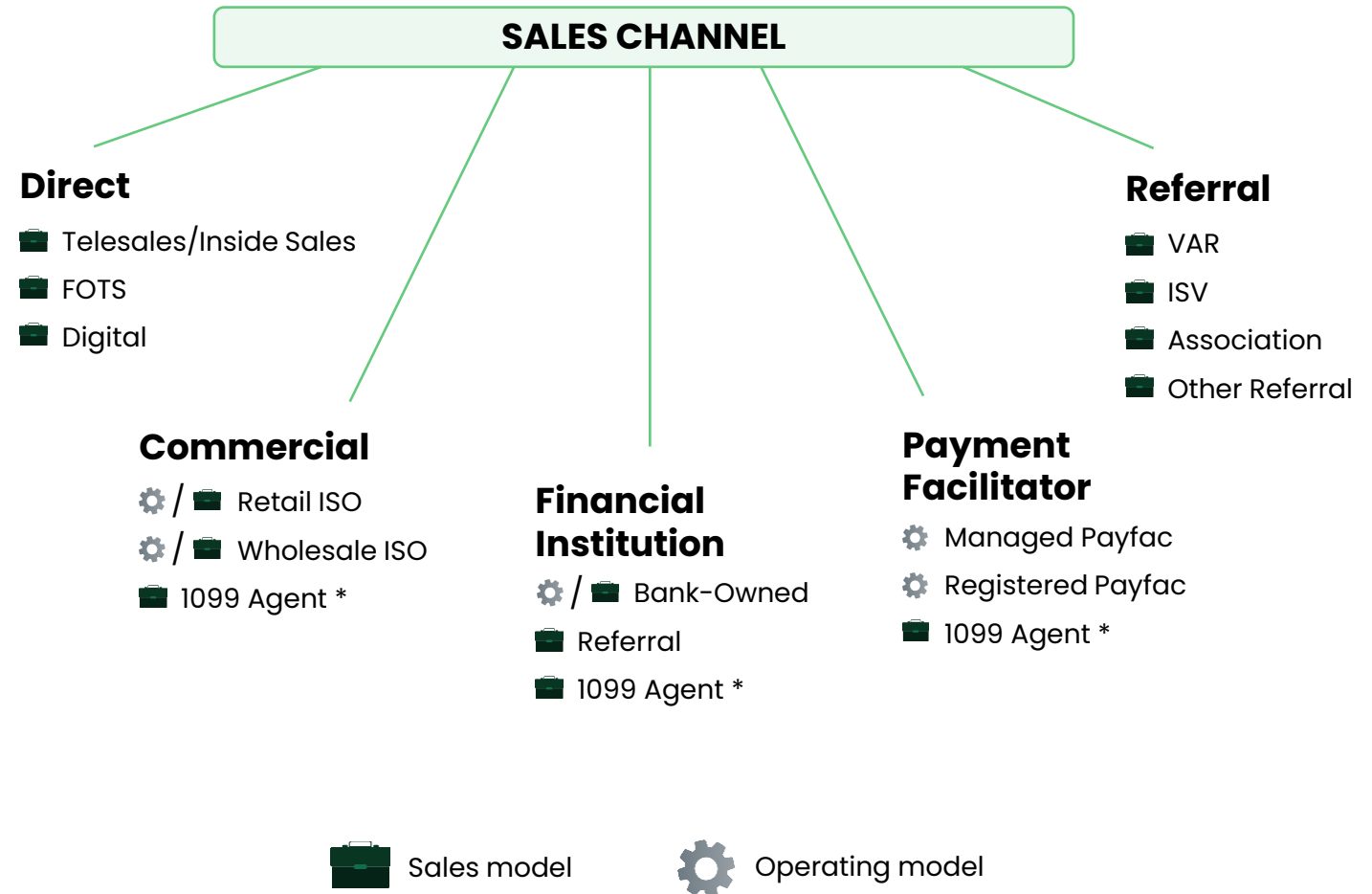
Building the Framework

Merchant acquisition is often discussed using terms such as "sales channel," "sales model," and "operating model." While these terms are closely related, they describe different aspects of how merchant services organizations acquire merchants and deliver payment acceptance. Understanding these distinctions provides a framework for the sections that follow.

Sales Channels are the primary route through which merchants are acquired. They define where opportunities originate and who introduces merchants into the merchant services ecosystem.

Sales Models are the method by which merchants are recruited within a sales channel. The model defines how sales activities are performed.

Operating Models are the organizational structure used to deliver merchant services after a merchant has been acquired.



The Role of ISVs in Payments

The merchant landscape has increasingly shifted towards the mass utilization of ISVs

Why Are ISVs Important?



A Conduit to Merchants

ISVs are a valuable channel for acquirers to gain merchants at scale, offering many benefits as well as a few challenges.



Growing Reliance on Software

Merchants are increasingly adopting cloud-based business management software because it is cost-effective, easy to use, and does not require technical expertise.



Merchant Stickiness

Merchants onboarded via an ISV tend to stay with the acquirer used by the ISV longer than merchants who seek an acquirer on their own.



ISVs Are Often Processor-Agnostic

Payment providers can work across many types of software, regardless of the industry. Though an ISV may serve just one or two industries (e.g., Toast for restaurants), it may still partner with multiple acquirers.



TSG is a fast-growing analytics and consulting firm. The company serves the entire payments ecosystem, from fintech startups to Fortune 500 companies. The firm provides its clients with advisory services, research and analytics to help them plan and execute their strategic initiatives. Based in Omaha, a recognized payments industry hub, TSG is an established leader in this high-growth, ever-evolving space.



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~4M



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