

# EVO's Evolution

Multifaceted approach to processing and willingness to assume risk foster continued growth

By Julie Ritzer Ross

In June of 2009, Ray Sidhom, CEO of Melville, New York-based payment processor EVO Merchant Services, received the Ernst & Young Entrepreneur of the Year Award—bestowed by global consulting firm Ernst & Young LLP to recognize “outstanding entrepreneurs who are building and leading dynamic, growing businesses.” While Sidhom didn’t expect a panel of independent judges to single him out as the award recipient for the Metro New York region, the fact that it did so is not surprising given EVO’s growth since its inception some 15 years ago.

Recognized as one of the top 20 acquirers in the United States, EVO was co-founded by industry veterans Sidhom and Jeff Rosenblatt, president. The company, which began in a single small office with eight employees, now occupies an 85,000-square-foot building in Melville. Its team of more than 800 U.S. staff members is distributed among the Melville headquarters and a 15,000+ square-foot data center in Moorestown, New Jersey; EVO also maintains a similarly sized office in Montreal, Canada. What Rosenblatt deems a small cadre of customers has grown into a portfolio that includes 250,000 U.S. and Canadian merchants processing more than 385 million transactions and \$26 billion in transaction volumes annually. EVO boards approximately 7,000 new merchant accounts each month.

## Walk, Then Run

Sidhom and Rosenblatt started the business with a clear vision of turning it into a full acquiring processor that could handle the entire transaction lifecycle, rather than involving any third-party entities. “We believed that by doing everything ourselves, we would have tighter control as well as a better platform for setting ourselves apart from the rest,” Rosenblatt says. “We didn’t want to pin everything on customer service, which we all like to say we do well, or on price.”

While EVO offers credit card processing solutions in the United States and Canada, along with debit, EBT, electronic check conversion, gift and loyalty card processing, and other services at direct pricing, the company has also built its own front-end system and a management system called OnBoard.

OnBoard bolts on to multiple front-end systems, including those of EVO as well as front-end systems utilized by agent banks and merchants, and facilitates file-sharing among all of EVO’s partners. A



## EVO Merchant Services

Melville, NY

**Size of Portfolio: 250,000 U.S. and Canadian merchants**

**Annual Transaction Volume: \$26 billion+**



risk management component of OnBoard allows some merchants to be automatically boarded based on processing volumes and other criteria and gives EVO enhanced control over the boarding process. Additional homegrown technology includes a proprietary e-statement program for merchants; EVO Charge, a computer-based POS software; and EVOTrac, an online merchant transaction detail and reporting platform.

“Everything we do is done within our operation centers,” Rosenblatt notes. “It keeps everything more streamlined and more efficient, and it allows us to deliver a complete suite of products and services directly to our customers the way we want it done. We can, and do, provide certain processing services through other front-end networks in addition to our own, but only because it allows us to give our customers whatever processing solution they may need.”

## Adapt and Overcome

Rosenblatt freely admits that the road to EVO’s success has not been entirely free of obstacles. As is the case for many startups, money was tight at the beginning and there were no outside investors to provide cash infusions. Rather than drawing salaries at first, the partners used their existing cash flow as best they could and reinvested



their profits in growing the company. On occasion, necessary funds came from advances taken against personal credit cards.

"There were sacrifices, but they were worthwhile sacrifices in the long run," Rosenblatt says. "You have to see the big picture."

Moving forward, there were concerns about becoming too dependent on a single line of business or market—especially in the face of tighter margins as well as the advent of free terminal programs and other enticements designed to lure merchants to the competition. One strategy for grappling with these issues was establishing separate business units for various services and products, e.g., leasing, merchant cash advances, payment processing, front-end processing, and the like. Each unit is managed by a different group and team and has its own P&L.

Similarly, the processor diversified its sales channels and merchant base. In addition to telemarketing and a direct sales force whose ranks Rosenblatt declines to quantify, EVO now has in place an Alliance Partnership program composed of more than 55 registered ISOs and MSPs, as well as an Associated Partnership program. Under the Alliance Partnership program, mid- and larger-sized ISOs are afforded a BIN/ICA relationship with no upfront reserve requirements; maintain their own brand; and perform most service functions, such as boarding, underwriting, and customer service, independently of EVO. They are also free to formulate decisions about fee types and amounts and risk tolerance. Growth capital and lending solutions are available, too.

"The Alliance Partnership option helps large ISOs solve their No. 1 challenge: control," Rosenblatt says. "Most of our Alliance Partners perform some back-office functions and make decisions that control fee types and amounts, risk tolerance, and customer service, while EVO remains in the background managing the end-to-end process."

Meanwhile, the Associate Partnership program permits mid-size ISOs to appear to merchants and the general public as if they are acquirers while relying on EVO's infrastructure behind the scenes. "They can leverage our systems and customize the EVO platform to reflect their brand identity," Rosenblatt explains.

As for its customer base, EVO retains its long-term focus on traditional small- and medium-sized merchants, a tactic Sidhom and Rosenblatt consider far less risky than catering primarily to a smaller number of larger merchants that may be more difficult to replace should they jump ship. However, the company has also diversified into other markets, including nonprofits, municipalities, county government, and insurance groups. EVO launched Xpress-pay.com, a Web-based payment software program for the municipal and commercial market sectors.

"The time needed to bring municipal and commercial customers into the fold is greater than that needed to attract traditional merchants," Rosenblatt says. "However, the attrition rate is lower so it evens out in the end."

An active approach to merchant retention plays an equally critical role in enabling EVO to sidestep obstacles and flourish in the face of heightened competition, he says. A merchant retention group is charged with periodically reaching out to and "re-welcoming" long-time customers by soliciting their feedback about their experience with the company, inquiring whether they have any questions regarding price, and the like. EVO has also begun to utilize a third-party technology application that triggers a report should one of its existing merchant customers tender an application for services from another processor. "When we know that a merchant is thinking of leaving us, we can at least find out what the concerns are and, hopefully, head things off at the pass," Rosenblatt says.

## Smart Startup Strategies

- Avoid the "seat-of-the-pants" approach, say EVO's execs. Have in place a **detailed business plan and a budget**.
- **Choose partners carefully.** Investigate how they work, and don't sign on with the first party that expresses an interest.
- **Continually set new goals**, rather than meeting initial goals and failing to look beyond them.

## The Road Ahead

While EVO has clearly exceeded the objectives established at its inception and throughout its history, Sidhom and Rosenblatt continue to set new ones aimed at further increasing the company's market share. International expansion tops the roster. In mid-2009, the MSP made its initial foray outside the United States with the opening of the Montreal office; Canadian merchants have come to comprise a significant portion of its portfolio. At presstime, the company was planning a move into the United Kingdom during first-quarter 2011.

"This is just the tip of the iceberg for us when it comes to markets" abroad, Rosenblatt says. "Long-term, we believe there are tremendous opportunities out there and that

our model can have a lot of value in many areas, including Eastern and Western Europe and the Asia Pacific region."

Other strategies include augmenting the roster of value-added products and services designed to increase "stickiness" among EVO's existing merchant base as well as bringing new merchants into the fold. The development of mobile e-commerce appli-

cations is on the MSP's "to-do" list. Not long ago, EVO configured a hosted, Web-based thin client application intended to facilitate free-flowing, two-way information with its merchant customers. The application has numerous uses, from checking daily POS information to scheduling service calls and ordering supplies.

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The company is developing strategies for grappling with anticipated future challenges, such as government intervention. With processors now required to report merchant processing volumes to the Internal Revenue Service, EVO is considering what measures to take should customers not provide EVO with their tax ID numbers.

Economic woes are another consideration. "Many of us in this industry used to think our businesses were recession-proof," Rosenblatt says. "As the most recent recession has taught us, we're pretty resilient, but not entirely insulated. We need to be mindful of that by consistently looking at new angles to explore rather than resting on our laurels. Everything's a moving target." **TT**

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