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Re: Letter to Commerce Commission on Verifone / Smartpay Merger

To The Registrar,

Verifone's submission seeks to provide the view that the acquisition of Smartpay will not fundamentally affect the competitive nature of the market in New Zealand, but this is not the case.

In the response below, I have referred to various points in the Verifone submission and have outlined the view of the proposed acquisition from Skyzer's perspective.

For the Commissions benefit, it may be important to understand the two different divisions of Skyzer Payments Ltd. The business is separated into two "divisions or brands".

- Skyzer Technologies (ST) is the Ingenico distributor in New Zealand. ST provides Ingenico terminal hardware using software developed locally and certified on the Paymark switch to over 70 terminal resellers geographically located across New Zealand. In the "wholesale" market as it is referenced by Verifone, ST competes with Verifone, Perception Technologies and Smartpay.
- Skyzer Payments (SP) is the direct sales arm of Skyzer Payments Ltd and provides payment solutions to corporate customers that traditionally have more complex technical requirements and / or have multiple geographic locations. In the "retail market" as it referred to by Verifone, SP competes with Verifone, Windcave and Smartpay.

It is also important to note that where it has suited Verifone to do so, they have made a number of inferences in the submission that there is a direct link between Ingenico and Skyzer, and in some cases in the submission are being presented as one in the same. This is certainly not the case and the relationship between Ingenico and Skyzer is that of a supplier / distributor.

If you have any questions regarding any of my comments below, please contact me to discuss.

Kind Regards

Darren Parker

Managing Director  
Skyzer Payments Ltd

## PART 1: PARTY AND TRANSACTION DETAILS

3 (a). Verifone advise that post acquisition, their total market share will be less than 40%. Whilst total market numbers are very hard to determine, it is Skyzer's view that the total addressable market size of active terminals is approx. [REDACTED]. Given the size of the active terminal market in NZ, it is Skyzer's view that the combination of Smartpay and Verifone terminals on both the Eftpos NZ and Paymark networks would account for approx. [REDACTED] of the terminal market in New Zealand.

3 (b). Whilst there are many terminal suppliers in the NZ market, these suppliers can be best categorized into 4 terminal providers which are Verifone, Smartpay, Windcave and the Reseller Channel. I have specified the main market segments and the solutions that each supplier provides.

| Supplier         | Interfaced / Integrated Solutions | Standalone Solutions | MPOS |
|------------------|-----------------------------------|----------------------|------|
| Verifone NZ      | Yes                               | Yes                  | Yes  |
| Smartpay         | Yes                               | Yes                  | Yes  |
| Windcave         | Yes                               | No                   | No   |
| Reseller Channel | Yes                               | Yes                  | No   |

It is important to note that Verifone and Smartpay have terminal offerings in all three markets, as opposed to Windcave and the Resellers that do not. Additionally, both Verifone and Smartpay also have a commercial advantage in that they are both the importer, software developers and sales channels for the Verifone and PAX terminals respectively. There are both financial and competitive gains to be made by controlling all aspects of the terminal development and deployment process and having the ability to provide an end to end solution provides both organisations with a distinct advantage over their competitors.

3 (c) It is well known in the NZ market that the barriers to entry are very high. Except for Eftpos NZ, which only supports Verifone terminals, the requirements to certify to the Paymark switch are complex, rigorous and expensive. Whilst there are many terminal providers globally, only a small number have ever certified payment solutions in New Zealand, and even less of those terminal providers are still providing solutions to merchants in NZ.

There is also reference to Ingenico (through its subsidiary Bambora) providing payment solutions to NZ merchants. Bambora provide both E-Commerce and Acquiring services and provide solutions for both the Card Not Present and Card Present (terminal) markets. Bambora DO NOT provide payment terminals in the New Zealand market.

With regards to QR Code technology, many of the QR code applications referenced by Verifone reside on the payment terminal. These solutions are complementary to the standard suite of payment transactions and are available on most of the newer terminals in NZ today.

"Open Banking" has been referenced as a constraint post acquisition. Open Banking has been a hot topic of conversation over the past couple of years. The reality here is that the banks are very slow to support Open API's, and many in the market do not see Open Banking as a mass market reality for some time.

3(d). It is Skyzer's belief that this acquisition will remove a payment terminal supplier from the NZ market, reducing the ability of the retail suppliers to source from alternative providers. It is also important to note that as referenced in Point 3 (a), whilst there are many terminal resellers in NZ, even combining all of these individual entities together, will not even come close to the combined Verifone / Smartpay market share.

3 (e). If the acquisition is approved, the combined Verifone / Smartpay market share will be the largest of any terminal provider in NZ, by a considerable margin, which must create concern on what the competitive landscape will look like for both the wholesale and retail terminal market going forward.

## PART2: INDUSTRY CONTEXT AND RELEVANT MARKETS

31. It is important to note that Invenco's market share is predominately focused on the provision of Unattended Payment Terminals (UPT's) to the fuel industry, and do not compete with either Verifone or Smartpay in that market segment.

It should also be noted that it is estimated by Skyzer that the combined market shares of Quest, Spectra and Castle brands represent approx. [REDACTED] of the overall NZ market.

52(b). Verifone states that most retail suppliers of terminals do not offer a field or on-site service, but this is not the case. You can attribute a lot of the Reseller Channel's success is based on their geographical location, and their ability to provide the level of on-site support that their customers require. Many of their customers are bars and restaurants that require a more personal after-hours support model.

76. Verifone advises that post acquisition there will continue to be a choice of manufacturers to choose from, and in particular, Ingenico and PAX. As the Ingenico distributor, Skyzer agrees that Resellers will continue to access Ingenico hardware from Skyzer.

With regards to PAX, it is Skyzer's view that the price that Verifone is paying for Smartpay is in excess of the "industry standard" and significantly more "per lane" than Smartpay paid for the Viaduct business a few years ago. In paying such a premium for Smartpay, the only commercially beneficial option for Verifone is to replace the entire PAX fleet with Verifone hardware and migrate the switching services away from Paymark onto their own Eftpos NZ switch, effectively removing availability of the PAX brand from the market.

Verifone's references to the other terminal brands available in the market are not an accurate representation of the hardware available to the Reseller channel. Happy to elaborate on that point in more detail.

77. Verifone advise that Smartpay only develop software for themselves as they only sell directly to merchants. Whilst Verifone reference the fact that Smartpay do sell to a small number of resellers, it is important not to gloss over this as Smartpay still provide an alternative hardware platform in the market.

Verifone also state that the development of software is a substantive one-off task, but once again this is not the case. Skyzer has a team of 7 staff including software development, testing and certification analysts and support staff dedicated to the development and certification of payment software for the NZ market.

Every year, Paymark provides a Terminal Specification that all providers must develop and certify against to ensure that the terminal continues to meet the latest specification. The development and certification costs involved in doing this are substantial, which creates a significant barrier to entry to starting in the NZ market.

## CONCLUSION

Verifone and Smartpay have been fierce competitors for many years and continue to provide terminal offerings to the SME market at the lower end of the pricing scale. The ability to compete aggressively on price has enabled both Verifone and Smartpay to become two of the dominant payment solutions providers in the industry.

The Reseller Channel is, in many cases, unable to compete with Smartpay and Verifone on price, but instead has focused on securing terminal business based on the quality of the service and support they provide.

In our opinion, the Commission should consider the following effects of the potential acquisition:

- That the proposed acquisition has the propensity to increase the cost of the provision of a payment terminal solution to the NZ market, particularly the SME market who are already under increasing pressure to reduce costs in a tough retail environment.
- The acquisition removes another terminal supplier from the NZ market, and reduces the availability and choice for both the wholesale and retail market.
- The acquisition creates a provider that will have approximately [REDACTED] market share of the NZ terminal market.