

Entrepreneur

Credit card processing company grows business by evolving strategy

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The rapid growth of Boston-based credit card processing services company Merchant Warehouse is a testament to the company's ability to evolve its business model, embrace technology and be innovative in the delivery of its services.



Henry Helgeson and Scott Zdanis established the company in 1998 as a reseller of credit card processing terminals over the Internet. To a smaller extent the company provided processing of credit card transactions. But as margin compression made equipment sales less profitable, the partners responded by ramping up processing services. Today, its processing services constitute 90 percent of its total gross revenue, while equipment and software sales are 10 percent.

Business has been so brisk — it signed up 2,300 new customers in April alone — that the company is planning to increase its sales force by 30 percent or 40 percent within the next 60 days.

“We basically are getting more businesses trying to sign up (for our services) than we have the capacity for, and we’re trying to staff up for that as quickly as possible,” says Helgeson, 34, who serves as president and co-CEO. Co-founder Zdanis has since moved to Miami and plays a less active role in the company.

Merchant Warehouse acts as a third-party processor, facilitating payment transactions between merchants and credit card issuers, essentially by getting money off of the consumer's credit card and into the business's bank account. Its residual-based business model makes money by charging for that service on each transaction.

Since its inception, the 150-employee company estimates serving a cumulative total of more than 87,000 customers nationwide — primarily small and medium-size businesses; about 56,000 are active accounts right now, with most of the attrition due to companies going out

W. Marc Bernsau
Henry Helgeson,
president of
Merchant
Warehouse, says
the credit card
processing
company is
increasing its sales
force as the
business continues
to grow.

of business, Helgeson notes. Today, Merchant Warehouse is processing more than 3.5 million payment transactions per month.

After hitting \$27.3 million in revenue in 2008, the company is shooting for \$32 million to \$34 million this year.

Helgeson says Merchant Warehouse has also benefited by becoming more of a technology-driven company.

“When we started to hire our own software developers and build our own infrastructure, as far as computer systems and technology to run this office, that really put us into a hyper-growth mode,” he says.

Five years ago, the company hired its first software developer. It subsequently built its own sophisticated customer relationship management system in-house that has enabled the company to better measure the performance of its accounts and staff. And 18 months ago, it completed the development of the necessary infrastructure to begin processing some transactions through its own electronic gateway here in Boston. It continues to utilize three large outside firms to assist in processing the bulk of the transactions.

The company also works with a pool of about 100 point-of-sale system resellers, who often refer business to Merchant Warehouse.

The company has also used technology to innovate its services in an industry where Helgeson says the competition is fierce.

“Our industry has been pretty much plain, vanilla credit and debit processing,” Helgeson says. “We had to look at it and say, ‘What can we do here to differentiate ourselves?’ ”

For instance, it offers wireless credit card processing services to iPhone and BlackBerry users who have installed its software applications on their PDAs. Those mobile merchants now represent 10 percent to 15 percent of the company’s new accounts. It has also partnered with another company, **MagTek Inc.**, to develop a card reader that encrypts the credit card number as it is being swiped to help prevent security breaches.

“They’re a very impressive group,” says Steve Parks, vice president of **Elavon Inc.**, an Atlanta-based firm that Merchant Warehouse has engaged for some of its processing services for many years. He attributes the firm’s growth to “some very shrewd investments in technology and being ahead of the curve in terms of technology and how to use it to drive traffic (to their business), and training their sales reps to capitalize on that traffic.”

Sean McFadden can be reached at smcfadden@bizjournals.com.