



Productivity Commission – Inquiry

The Economic Structure and Performance of the Australian Retail Industry

20 May 2011

The digital economy will allow the big retailers to expand their domination further squeezing the remaining retail community.

The increasing preponderance of smartphones and ever-present broadband access allows the big retailers to deploy customer engagement strategies bundling financial and marketing services capabilities.

The Australian SME retail community is under threat.

Modern mobile devices provide a dramatically increased capability that can be used for presentation and user navigation. The always and everywhere connected world of the internet allows electronic, mobile and countertop commerce to increasingly interact, and provides a new and richer shopping experience to Australian consumers.

The dominant retailers have embraced the opportunity to use this new, media-rich and multi-channel digital environment to aggressively compete and to significantly grow their market share. They have built a massive portfolio of credit, debit and pre-paid cards, and amassed data on millions of their customers through their loyalty card programs.

New mobile technology allows them to craft personalised messages from their detailed data base of profiles and purchase patterns and then target consumers real-time in the physical vicinity of their outlets. It facilitates promoting, discounting and selling across the ever increasing number of categories they cover.

The resulting complex promotion offers can be efficiently redeemed at any and all points of contact since, as dominant corporate players, they use their own switching and settling technology and integrate into their own communication and point of sale technology.

The lack of transparency created by loyalty, bundling and finance offers erodes the market share of the SME retail community and protects against new competitive offers and competitors.

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SME retailers will struggle with the abundance of new ideas and products. They cannot match the big retailers in technology and bundled offerings. They lack the experience, scope, scale and investment capacity. How are they to compete with the major retailers, who have taken this converging payment, marketing and promotion technology in-house?

An SME retailer that turns to the banking industry finds four dominant players suffering from legacy payment technology and a significant conflict of interest. They benefit from the interchange fee revenue of established card payments (Visa, MasterCard and EFTPOS). They sweat their incumbent technology and struggle with the specific business process and IT integration needs of a vertical sector or a merchant.

In contrast, the SME retailer's business system software provider is a small to medium company; one with an intimate knowledge of the retailer's business process and IT integration needs, but lacking both the feeling of entitlement and the capabilities in the payment, marketing and promotion space.

Tyro took this challenge as an opportunity when it entered the EFTPOS space eight years ago with the stated mission of bringing the advantages in payments, marketing and promotion of the big end of town to the SME community and that in partnership with software vendors in specific verticals like medical practitioners, news agents and duty free stores.

While Tyro has made significant inroads in some of these vertical markets, the overall achievements so far cannot satisfy. There is still much to do, before Tyro can claim to have a real impact on the industry.

With the support of the Reserve Bank, Tyro - the only new entrant into the EFTPOS space - gained access to the Australian clearing and settlement system and to the card scheme organisations. For four years, Tyro has battled to scale-up building the merchant portfolio. The slow pace of this hampers the investment capability in providing the SME community with a full scope of competitive solutions.

If one believes that innovation in payments is a critical factor in retailers' survival into the digital future, the barriers to expansion for a new entrant into the Australian payment system have to be flattened.

See Tyro Submission 36

http://www.aph.gov.au/senate/committee/economics_ctte/banking_comp_2010/submissions.htm)



New entrants and SME retailers have to be able to trust in a level playing field and a fair go. Big banks and big retailers must refrain from discriminatory behaviours and anti-competitive bundling opportunities that the new digital environment might make possible.

Tyro has been vocal in advocating SME interests against the reversal and increase of interchange fees in the domestic EFTPOS system that was recently decided by the big banks and the big retailers.

Equally, we are vocal about drawing attention to the SME retailers' need to gain access to these new electronic payment, marketing and promotion technologies so they can retain the engagement of their customer base. They need a partner that is not-conflicted, innovative and agile, so that the SME retailer can compete alone or in coalition with the SME community.

If we do not create a level playing field and give innovation and new entrants a go, the retail industry will continue and accelerate its consolidation path. The result will be further falls in competition and choice, inevitably reducing the outcomes possible for the Australian community.

Jost Stollmann
CEO



Tyro Payments Background

Tyro Payments is the first and only new entrant into the EFTPOS payment space in over 14 years and competes successfully with the Australian major retail banks. BRW recently recognised Tyro as the 4th fastest growing business in Australia.

Tyro operates as a specialist banking institution and supplies EFTPOS terminals and provides card acquiring services, i.e. it authorises, clears and settles Visa, MasterCard, American Express, Diners, JCB and EFTPOS card payments on behalf of medical practices, pharmacies, newsagents, book and duty free stores, car dealers, restaurants and general retailers. Tyro also provides a real-time claiming and rebating solution to Medicare Australia, an online tenant rent payment facility to Westfield Limited and a card payment facility for Coca Cola Amatil vending machines.

Tyro facilitates the transfer of funds from the end customer to the merchant. Funds payable to merchants are settled into any Australian transaction bank account of their choice. All transactions are viewable online in real-time. With its specialised banking license Tyro does not take money on deposit.

Tyro has developed and operates an end-to-end transaction acquiring solution using state-of-the-art server hardware, (open source) software, IP networks, development tools and agile methods, as opposed to the legacy solutions offered by the major retail banks. Tyro develops customised solutions for many of its clients to suit their business and operational requirements.

The Reserve Bank of Australia enabled Tyro (a non-bank with a specialist license) to compete in the core banking process of merchant acquiring. Tyro has brought fair and transparent pricing to the market, EFTPOS claiming and rebating for Medicare Australia and fast, secure, non-stop, integrated EFTPOS for Australian merchants.

Innovation and competition are of prime interest to Australian consumers and merchants as it gives them both fee and product choice. Indeed, it is also in the interest of the major retail banks to encourage and foster a thriving entrepreneurial layer in the banking industry as it generates innovative ideas that spill over into their organisations.

Further information on Tyro and financial reports under www.tyro.com