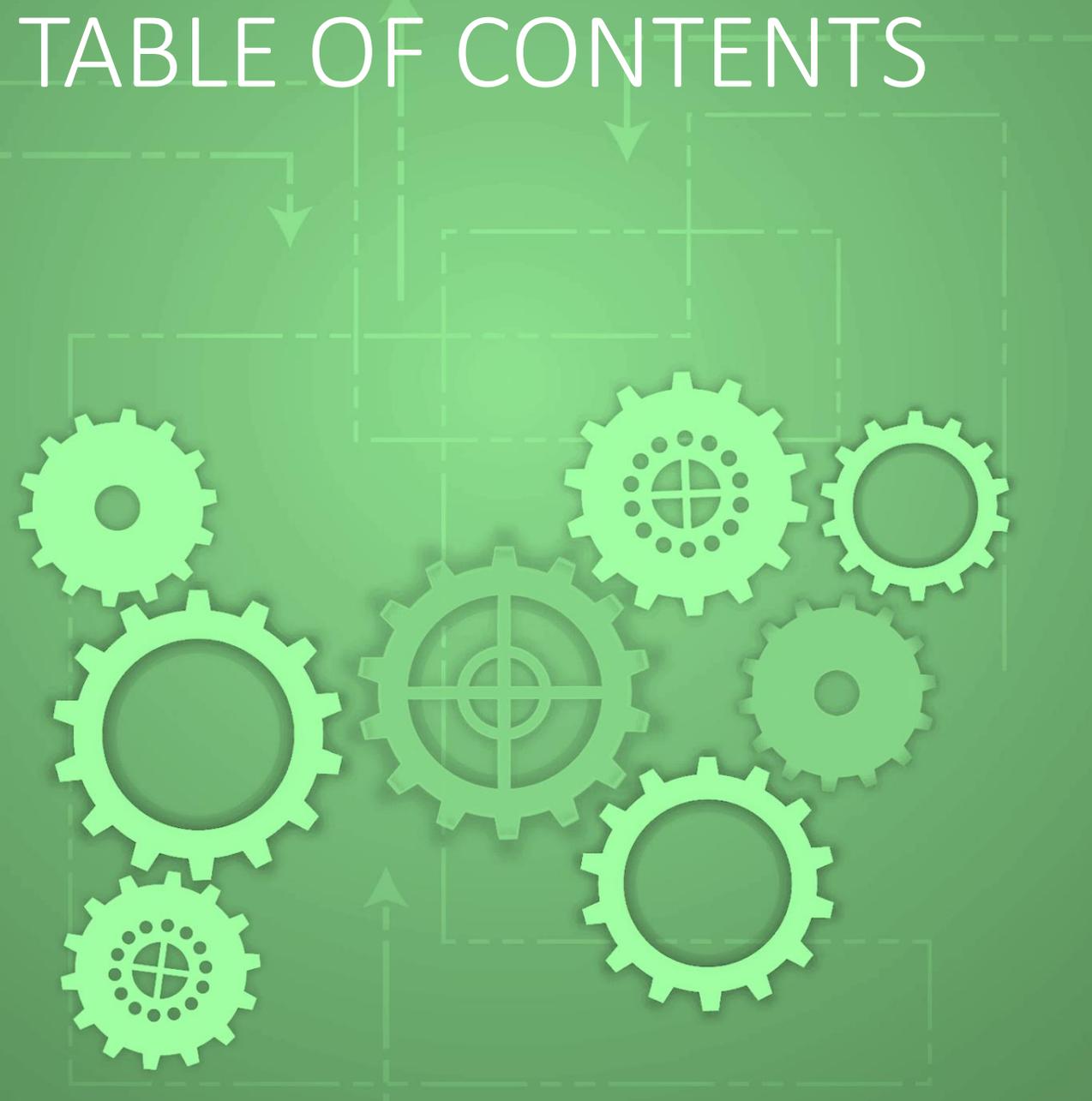




PREVIEW

The Last VAR Standing: The VAR Business Model Threat

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TSG's Definition of an Independent Software Vendor (ISV)

A company that develops software solutions that aid in managing different functions of a business operation. Generally, these software makers specialize their solution to a specific merchant vertical market.

- Primary purpose of the software is to help merchants manage their business operations (e.g. inventory, scheduling, communications etc.).
- Typically is vertically focused on one industry (or a group of similar industries), with a specialized solution for merchants in that industry.
- Credit card payment acceptance functionality may or may not be a feature/module of the software product.
- The software offering is developed by and is proprietary to the ISV.



TSG's Definition of a Value Added Reseller (VAR)

A company that sells third-party software and/or hardware products. These companies may also provide additional services beyond the third-party products they sell. VARs are often geographically focused in their market presence given they often have a 'feet on the street' sales and service model.

- VARs may sell products that are created by and proprietary to one or multiple third-parties, which are often ISVs.
- VARs often times sell legacy "big box" point of sale systems that require on-site servers and generally have price points that are much higher than emerging cloud-based providers.
- VARs often provide additional value to the third-party products they sell by often providing face-to-face demonstration, installation and service.

The Centrality Of Software

- Think about all the things a new business does before it opens its doors. In 2017, those things are centered on interacting with software platforms, whether its registering a new domain name (e.g. GoDaddy), building out a client list (e.g. Salesforce) or uploading inventory into a digital shop (e.g. Magento). If their entry point as a business is something like QuickBooks or GoDaddy or Salesforce, those providers hold a lot of sway in guiding how that SMB gets other services.
- The essential gravity in the ecosystem right now are SaaS providers: the central point around which all other services rotate.
- Unless the existing merchant services company is integrated into that software provider's ecosystem and is providing unique value to the software company and the end user, they likely won't exist in 10 years.
- Software is quickly becoming the driving force behind commerce, and it's going to determine who merchants work with, how they run their businesses, where they are finding service providers.



Source: TSG Analysis

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PREVIEW

The POS business is evolving rapidly – or regressing rapidly – depending on your perspective

Before, a VAR would earn its living by selling hardware and software at high prices, and offering hourly services on the side

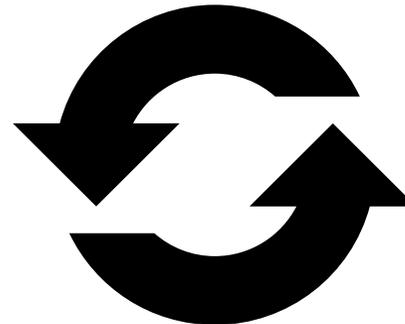
Today a merchant can acquire a new cloud POS system for about **\$1,200** upfront and **\$50** per month

There is an industry debate on whether a cloud POS can be considered a “real” POS as it lacks some features and is newly developed – however, these could be considered as small problems as it is likely they’d be resolved within a few years

The new cloud model can’t solve every problem, but those that it can’t, can be fixed by third party service providers such as Boomtown leading to:

- **Transparent** pricing
- **Convenient** service
- **Better** operations
 - Third party providers like Boomtown collect data to learn how to fix problems faster

 Square + **First Data**



VAR’s traditional revenue stream is fading and the **20+ year-old** distribution model is being transformed

If there’s no margin selling POS, a VAR must learn to instead **sell** products that work in conjunction with and alongside the POS

In the payments industry

Similar to payment processors competing for a sale of a commoditized service to the loss of margin for the entire industry

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INVESTMENT TRANS*



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