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VeriFone's New Management Transforms Fears into Cheers

VeriFone's roller-coaster year has been far from amusing, but its fun might have just begun.

By the time Gores Technology Group completed the purchase of the Santa Clara, Calif.-based equipment provider in July 2001, the consensus around the payment-processing industry was that previous owner Hewlett-Packard Co. had all but destroyed VeriFone. Most of its senior management had exited. VeriFone no longer was considered number one.

But the Gores-led VeriFone has a new focus – a focus that couldn't have come at a more sensitive time.

"We're now focusing on what we do well and what customers tell us we do well – and that's the high-end payment appliance market," says Doug Bergeron, the new VeriFone CEO.

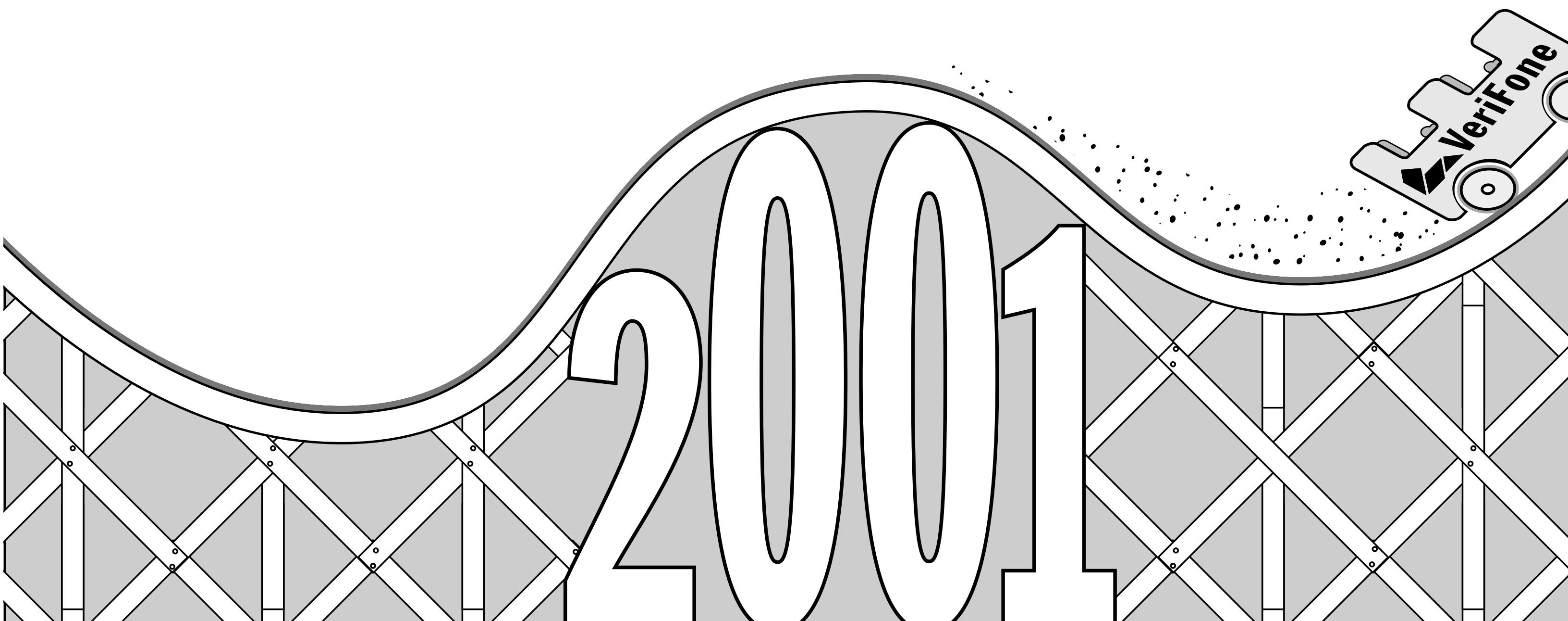
Gores, a privately held international acquisition and management firm, pursues an aggressive strategy of acquiring promising high-technology organizations and managing them for growth and profitability. It's determined to do the same with VeriFone.

In a recent open letter to the industry, Bergeron wrote that one of VeriFone's key achievements in its first 100 days under Gores was "a rapid return to entrepreneurial management and organizational structures that competes more successfully."

Does this mean it was lacking under the HP regime? Not exactly, according to Bergeron.

"What happened under HP was not all bad," he says. "Some of the order and process in engineering was needed … a maturity."

The Green Sheet takes an in-depth look at how Bergeron managed VeriFone's new maturity and company culture – and how it is perceived by others in the industry.



VeriFone's New Focus is Reflected in its Action Plan

"We are not going to penalize people for making mistakes. We will penalize for calling a meeting, sitting around and not taking action. Action is key."

– Doug Bergeron
CEO, VeriFone

The new buzzword at VeriFone? Streamline. Meetings, staff, expenses, research and development – you name it, and it has been subjected to the less-is-more theory. But the result certainly is more: more focus and more revenue.

One of the first things new CEO Doug Bergeron did was change the management approach. Under Hewlett-Packard, VeriFone managers were not empowered to make the changes they needed to make. Now that Gores Technology Group is in charge, Bergeron says everyone at VeriFone can make things happen.

"If they have an instinct and know something needs to be done, then the marching orders are to go confer amongst themselves, make sense of it and then do it," says Bergeron. "This industry is full of great ideas. When you are a leader, you assign one or two, have your managers monitor it, keep on top of it but don't react too abruptly for fear of going down the wrong path."

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Gores has taken action by downsizing the staff by 450 employees since July and flattening the management hierarchy. Managers were communicating, but not enough were acting – and too many people had not been fully educated about the business.

So Bergeron has thrown the keys to the car back to the people in the field. Some people have been promoted, others have been dismissed.

Other cost savings resulted from watching expenses more closely – particularly research-and-development expenses, which were cut from $45 million to $33 million. According to Bergeron, there were too many science projects. Now VeriFone's mindset is to avoid creating big bureaucratic projects around ideas before traction.

The new traction – after contraction – is designed to lead VeriFone to the top of the high-end terminal hill. VeriFone needs applications and technology to drive the terminals that have its name on them. According to Bergeron, VeriFone also needs to be the sponsor and agent of leveraging technology as well as the educator of merchants about the value of the VeriFone name.

"VeriFone may have gotten a little slow and sloppy in sales and distribution, but (it) never lost quality of product and technology," Bergeron says. "We acknowledge that the market share has gone to smaller competitors."

That acknowledgement has translated into VeriFone leaving the ancillary payment type of marketplace that didn't directly leverage its position in the payment market. It is sticking with what it does best.

"There are 20 million so-called points-of-presence – places where people can swipe cards," Bergeron says. "There is a VeriFone engine running over 10 million of them between merchant and consumer. Our technology is resounding, and we like it. We don't want to change that."

Bergeron also acknowledges that the Internet payment application space with large complex application software unrelated to point-of-sale allows corporations and large retailers to engage in alternative payment processing. However, the last three years have shown that it is a difficult market and certainly is not growing at the expected rate.

Most retailing still takes place in person. Electronic trade may be increasing, but VeriFone is banking on the fact that more than 90% is person-to-person with an electronic engine in the middle. "Alternative space is interesting but not where VeriFone is going," says Bergeron. "It's still lacking in standards."

We now know where VeriFone wants to go. How is it going to get the ISO community to embrace VeriFone and go down that path as well?

"Lots of education," is Bergeron's answer. "Pre-acquisition, we were a bit sloppy in talking and working with

ISOs. In a competitive marketplace, we have to get out in front. The ISO market just needs a chance to see our new product."

The new product he's referring to is the exciting Omni 3700 series, encompassing cost-effective technology that is comparable with its competition at every level.

Featuring EMV smart card compliance and multiapplication capability in a compact, all-in-one design, the Omni 3700 family of payment devices is geared toward combating the trials and tribulations of ISOs. Independent sales agents have major hurdles, lots of attrition and rely heavily on residuals from customer portfolios.

"With the combination of our architecture and cool, low-priced and sexy Omni family, we've created a tool that will help attract new merchants as well as generate new revenue streams," says Bergeron.

Excitement seems to be building at VeriFone, starting with its CEO. "What excites me most is that ours is a fairly vibrant business," says Bergeron. "People are still buying lots of equipment. VeriFone is in an exciting place. You can't buy the type of branding and customer satisfaction that VeriFone has."

And that branding was a plus for VeriFone under its HP control. "If we had to face everything we did and then, on top of that, junky products or shrinking market, it would have been difficult," says Bergeron. "We have phenomenal branding and customer-satisfaction level. It makes my job very rewarding. We are doing a lot of work but not running uphill."

As a result, even company officials were surprised when VeriFone exceeded its goal of 10% margins for its first 100 days under Gores management. They thought it was going to be heavy lifting, but once they lifted out the extra expenses, allocations and personnel, something much better was left – profits.

Comparing VeriFone's profits to those of the other two front-runners, Hypercom and Ingenico, Bergeron emphatically says his company leads the pack.

"Hypercom reported $72 million in its last quarter and Ingenico reported $65 million," says Bergeron. "We did $101.3 million. When someone says they are the leader, the fact is figures don't lie. We are the only profitable (company) of the three. We thought it was important to bring our message out, not hide our numbers."

Yes, it appears VeriFone is back from its fall from grace – a fall that was stopped by a change in company culture.

"We run a company like you run a household," Bergeron says. "We started at a grass-roots level, and we challenged every prediction of an order."

VeriFone built a revenue budget of $95 million for the quarter and came in at more than $100 million. An expense budget was created from the bottom up, following every nickel coming in and going out. That expense structure was built around an expectation of $95 million in sales. VeriFone controlled its expenditures and insured that it didn't spend more than it allocated.

According to Bergeron, VeriFone actually spent $90 million dollars and sold more than $100 million worth of product, a feat that HP couldn't accomplish. During the HP programs, departments budgeted over sales predictions, hoping the sales force would just go out and sell more to meet their expense demands.

In today's market, that logic doesn't fly. A depressed market won't support inflated figures. VeriFone deflated figures and inflated profits. "We got rid of a lot of low-hanging fruit," says Bergeron.

VeriFone is obviously doing business differently, hoping to maintain the same quality of product and increase customer satisfaction.

"We've always had great product. HP did great things with the product, but there has been some customer concern about attentiveness," says Bergeron. "With HP, we were treated like the crazy aunt in the basement. As long as she's not making too much noise, they really don't give her much attention. HP didn't really know how to run VeriFone, so it was easier to ignore it."

VeriFone has also made some changes in customer support. Account-management teams have been created, delivering daily customer attention. "We are trying to improve with a 'we care' attitude," Bergeron says. "Physical customer satisfaction with the product is good. But the account managers need to engender that 'we care' attitude."

Is that message getting out? What is the word on the street about VeriFone's new makeover?

Brian Beacom, Director of Strategic Products for Paymentech, had this to say:

"We've always had a good working relationship with VeriFone, developing new products and platforms. Since the Gores acquisition, we have noticed that they are taking a more strategic approach to their platforms. That's something that Paymentech likes to do. We are working with them on the new Verix platform and the new 3700 platform. We are excited about that.

"We did not have significant problems prior to the acquisition. I think their willingness to communicate was always there. Sometimes the ability to communicate their strategic direction wasn't. We now have a better understanding of them."

Listen to what President/CEO Robert Carr of Heartland Payment Systems said:

"I do see a new energy and re-energized VeriFone management team. It is very welcome and much needed in our industry. VeriFone has been a reliable, steady provider of quality products, but it allowed a vision of future products to drop into a secondary position in our industry. With the new management team, they are going to be giving their competitors a run for their money."

VeriFone has hit the track running. There is a sense of urgency and competitiveness within VeriFone's sales force that was lacking.

Bergeron has implemented new workouts. A salesperson who wins a deal is encouraged to revel in it and write down all the elements of that sales success. On the other hand, a staffer who loses a deal is instructed to go back and find out how to win it back – or figure out what went wrong and change it so VeriFone can get that account back.

"My thinking was, during HP's management, the sales quotas were merely a suggestion. In our organization today, we give out a set of goals for the year, and our sales force is going to be made to explain why they didn't make it," Bergeron says.

Thus, Bergeron is setting the bar, and he's doing it with the savvy that comes from his experience. Bergeron has been involved in technology turnarounds for the last 10 years and has been a Group President at Gores Technology since 2000.

Before joining GTG, he was President and CEO of Geac Computer Corp., a $990 million technology company based in Toronto. From 1990 to 1999, Bergeron was President/CEO of SunGard Brokerage Systems Group, a $400 million division of SunGard Data Systems.

Bergeron holds an M.S. in Systems Management from the University of Southern California and a B.A. in Computer Science from York University, Toronto. He's certainly brings it all to the VeriFone table.

What did he find at the VeriFone table? "Often when you take on a turnaround opportunity, you are fighting with internal and external problems," he says.

"The good news is that everything we found that needed to be addressed was internal and organizational. It is the most rewarding turnaround I've ever been involved in. However, this turnaround was definitional, not due personally to me."

Bergeron doesn't bring a lot of payment-processing expertise to VeriFone, but he is hoping to bring energy, focus and that sense of urgency.

"By definition, a leader is 50% symbolic," says Bergeron. "People want to see and hear from their leader. If people see the leader in a hurry, not taking prisoners, intolerant of failure, focusing on three key things and not 30 things, they tend to change and emulate and adopt the culture of the organization and its CEO.

"The CEO largely delivers the values and cultural signposts. I am more a financial than a tech guy, but the area I add value to is becoming a bit of a poster child for a sense of urgency and competitiveness."

The results:

• Revenues in Gores' first 100 days exceeded $100 million, and earnings from operations, excluding interest, taxes, depreciation and amortization, exceeded 10% for the period.

• VeriFone scored key competitive victories with substantial shipments to Ahold, CITGO, Concord EFS, Global Payments Inc., KFC, National Processing Company (NPC), Pizza Hut, Sunoco and TeleCheck.

• It redoubled its focus on the payment appliance marketplace with the sale of the ePS business to Trintech.

Yes, it would appear that VeriFone's new poster child is getting out the message loud and clear.

VeriFone is determined to re-establish its historic role as the leader, innovator and largest provider of payment solutions worldwide. It is welcoming back its customers and partners to a new era of sustained growth and profitability.