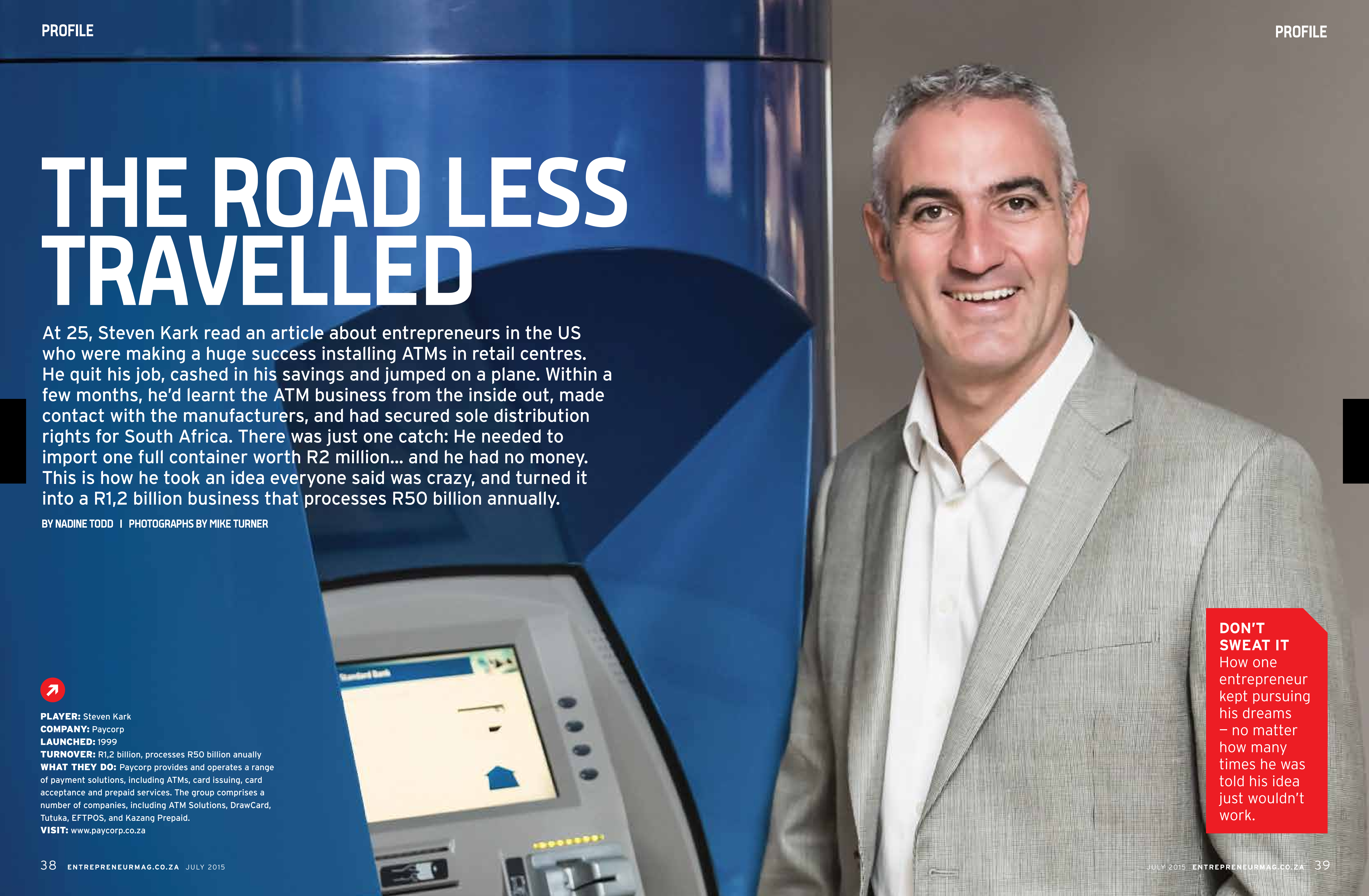
PROFILE



THE ROAD LESS TRAVELLED

At 25, Steven Kark read an article about entrepreneurs in the US who were making a huge success installing ATMs in retail centres. He quit his job, cashed in his savings and jumped on a plane. Within a few months, he'd learnt the ATM business from the inside out, made contact with the manufacturers, and had secured sole distribution rights for South Africa. There was just one catch: He needed to import one full container worth R2 million… and he had no money. This is how he took an idea everyone said was crazy, and turned it into a R1,2 billion business that processes R50 billion annually.

BY NADINE TODD | PHOTOGRAPHS BY MIKE TURNER

PLAYER: Steven Kark
COMPANY: Paycorp
LAUNCHED: 1999
TURNOVER: R1,2 billion, processes R50 billion anually
WHAT THEY DO: Paycorp provides and operates a range of payment solutions, including ATMs, card issuing, card acceptance and prepaid services. The group comprises a number of companies, including ATM Solutions, DrawCard, Tutuka, EFTPOS, and Kazang Prepaid.
VISIT: www.paycorp.co.za

DON'T SWEAT IT
How one entrepreneur kept pursuing his dreams – no matter how many times he was told his idea just wouldn't work.

PROFILE

Asking for money is never easy. Steven Kark and Rowan Swartz, co-founders of ATM Solutions, did it multiple times. Hearts racing, blood pounding, throats convulsively swallowing, they stood in front of every venture capitalist, private equity firm and angel investor they could get a meeting with. Each time the answer was the same: 'You want R2 million to import ATMs into South Africa? Don't banks connect to ATMs? So what you're saying is that you'll need to collaborate with the same people that you'll be competing with? This is not a clever idea. Stick to your day jobs.' As it turns out, those early 'no's' were the best thing that ever happened to the business.

MANY HIGHLY SUCCESSFUL businesses can be bootstrapped. ATM Solutions wasn't one of them. The business model required ATMs to be imported from the US, and the agreement Kark had struck with the manufacturers was that he could have sole distribution rights in South Africa, but he had to purchase one full container of 23 machines, worth R2 million. 25 years old at the time, Kark did not have that kind of money. His savings had been spent in the US, developing the idea, getting to know the payments industry and making connections. With banks viewing the idea with scepticism and funders uninterested in the business model, it left only one avenue: The 3Fs – friends, family and fools. But there were no fools in the equation. Each of those early investors would enjoy handsome pay-outs when they chose to exit a few years later.

Over the years, and based on his experiences of running a start-up, securing private equity funding, merging with another company, listing the business, running a large corporate, and finally ring-fencing the original business, implementing a management buy-out and going back to their roots, Kark has learnt a number of key lessons.

1. Keep your equity

The lesson: If you have a great business and a great idea, and faith in your abilities and market opportunities, keep your equity.

"Too many entrepreneurs give up too much, too early," says Kark. "Partners add complexity. I've had good experiences with partners, but we were lucky that no one wanted to invest in the business at the beginning, and once we'd been operating for a few years, we were strategic about when we brought partners on, and who we brought on. Early-stage equity deals can be stressful in the long-term.

"When we were two years old we brought on a strategic partner, Horizon Equity, which not only brought capital into the business, but also mentoring and guidance. It was an important boost. We wanted to build out our own transaction processing capability, to avoid being dependant on our banking partner's tech and so that we could build our payments ecosystem. That cost money, but was a vital part of our business model. Horizon also helped us implement better corporate governance in the business, which would also be incredibly important as we scaled it – and we were scaling fast. We could have stumbled and crashed. Our systems helped us keep up with our own growth."

When considering investment, valuation is key. "I've heard horror stories of early-stage deals not working out," says Kark, "partly because of investors wanting to come in and take over, and partly because of incredibly low valuations. When you're starting out and desperate for money, you'll accept a low valuation. If we'd concluded a few of those initial funding deals, it would have been a disaster for us, as the valuations were terrible. We'd have sold so cheap it would have been embarrassing. We also would have seriously complicated our lives.

"We had no track record. We hadn't proven anything. Two years later we were in a very different situation. We had 650 ATMs running across the country, a partnership with Saambou Bank, and a business model that was working – there was a need for the product in the retail environment. We were on a massive growth curve. It meant a very different valuation, and a much fairer buy-in from Horizon.

"We've learnt that if you decide to seek funding, be cautious who you let through the door. Once they're in, they're in."

Four years later Kark did a second equity deal with Ethos Private Equity. This was also a highly strategic decision. "By then we were cooking. We were a really professional organisation and this gave us a strong profile. We sold 30% of our holding. Some of the initial investors were able to cash out, and as a founder I was able to monetise some of my equity. Taking money off the table led to more expansive thinking. I no longer had all my eggs in one basket – I invested some money in a managed portfolio, and we used the rest of the equity for growth."

1999	2000	2001	2002
ATM Solutions is launched under a holding company, Kanderlane Group, pioneering the independent deployment of ATMs in South Africa.	First Saambou ATM goes live.	Horizon Equity becomes an equity investor in the business.	Saambou Bank goes under. With a now-proven track record, other banks are interested in the business model, and Absa and Nedbank come on board.

2.Don't focus on the exit; Great businesses sell for a lot

Lesson: This is double edged. You don't want to build a business that is completely tied to you and that you can never sell, but you also don't want to make expedient short-term decisions because all you're thinking about is the exit.

As a start-up or growing business, what conversation are you having? "So many owners are fixated on the capital valuation of their exit – even from start-up. This affects your medium-term decisions," says Kark. "Medium-term, sub-standard investment decisions include people-related and employment decisions. Who are you investing in? Are you thinking long-term, or are you making short-term tactical decisions? Business owners in this frame of mind make decisions that look profitable in the short-term, but do long-term harm. They're so focused on finding a buyer that they forget to build a sustainable business. Instead, they're just building a house of cards.

"The irony is that great businesses sell for a lot… simple as that. Business owners who focus on the foundations of their business and build sustainable organisations will find investors and eventually be able to exit, but usually because they've been thinking long-term, and their decisions reflect it. Get customers. Build revenue. Make profit. Stop fixating on the exit."

THE START-UP STORY

Paycorp was first launched as ATM Solutions in 1999. Founder Steven Kark was 25 years old. He'd seen an article in *Forbes* magazine describing the success of the largest independent ATM company in the US. It was the late 90s, and the retail landscape in South Africa was changing. Convenience retail was on the rise, and large retail shops, 7/11s, and garage shops were popping up everywhere. Retail was becoming more convenient, and yet there was one glaring gap: Very few ways to access cash outside of banks.

"In the US, companies were installing ATMs in retail areas. I knew there was an additional opportunity in South Africa: Previously under-serviced areas and retail locations, which had traditionally been neglected, but offered a huge market. "After a lot of searching, I found an email address and managed to get in touch with the guys in the US who I'd read about. They weren't interested in international expansion, but they were happy to put me in contact with the manufacturers, a company called Triton based in Mississippi.

"I jumped on a plane to the US to make contact. I had some money saved up and for the next few months I cultivated the idea. I also realised I needed someone who understood technology. I contacted a family friend, Rowan Swartz, and asked him if he was interested in launching a start-up. He was.

"We formed an amazing partnership with Triton. They facilitated introductions to all the big ATM guys in the US. By the end of 1999 our first 23 machines arrived. Now we needed a bank to connect to. Our proposal was simple: 'We'll extend your footprint of ATMs into retail locations. Through our ATMs, you'll have access to more transactions, particularly in under-serviced markets; you'll service your customers, but you won't carry the costs.' The big four banks didn't bite. We just couldn't make the idea fly until Saambou got on board. They had a large cardholder base but few machines, so the idea worked for them.

"On 24 March 2000 the first machine went live at an office park in Pretoria, across the road from a Saambou bank. In quick succession, there were 23 Cash Express machines supported by Saambou live around Joburg and Pretoria. For the next 14 years we installed a machine per day."

THE BUSINESS MODEL

Kark and Swartz had hit on a serious market need. All retail stores wanted an ATM. They increased foot traffic, spend and basket size. But it was difficult for merchants to get ATMs from banks, which didn't view them as a retail product. "We approached the retailer directly. There were two options. One, the retailer paid R1 800 per month rental, and we took care of all services except the cash, which was loaded from their tills. Two, the retailer paid R2 800 monthly rental, and we did the cash stock as well (this made things more complicated because we now needed cash-in-transit partners). The back-end was complicated, but very simple for the retailer: For either R1 800 or R2 800, they got a fully-serviced ATM.

"There was a huge demand. We installed 650 ATMs in two years. We signed 60-month agreements upfront, and this helped us secure the finance to order and ship more ATMs.

"We get an annuity stream of bank fees: Every time a machine is used, the retailer gets a percentage of the fees, we get a percentage of the fees, and the bank's footprint grows."

Once the transaction processing capability was established, additional complementary products and services were added. The business quickly expanded into card acceptance services and prepaid card programmes. Today, Paycorp has expanded even further with acquisitions and partnerships to extend the payment solutions to emerging markets.

3. I like businesses that are low margin, high volume

Lesson: I prefer selling a R1 product to a million customers to a R1 million product to one customer.

"We call it the 1 to 1 000 model: Can you sell something for R1 to 1 000 people? Or are you trying to sell something worth R1 000 to one person? The first model is far more scalable, drives down costs, and offers a bigger market – this is what we looked at when we formed ATM Solutions, and it's continued to drive our decisions as Paycorp. We wanted to find pools of opportunity, and offer something they need.

"The payments business really fits this model. Hundreds of millions of people have used our products and services and continue to do so. There's a high need for payment solutions, from ATMs at retail outlets, to card programmes and prepaid vending. Each time we facilitate a transaction we make a few rand, but we have millions of customers."

Today Paycorp operates over 5 000 ATMs in four countries with twelve banks, 22 000 terminals in eight countries and over 400 card programmes in six countries. "Our turnover is R1,2 billion and we process over R50 billion annually. Imagine trying to get that from a few clients?"

4. Avoid dependency on gatekeepers

Lesson: Develop multiple relationships across sectors and geographies to ensure your business is not reliant on any one supplier.

"We've always focused on reducing the power of gatekeepers. If you have one core technical provider, one key supplier and one primary customer, it's highly likely you'll come unstuck because you're overly reliant on others. A single bank, a single cash-in-transit company – these are all gatekeepers; a lesson we learnt the hard way.

"We knew from the beginning that we didn't want to be beholden to anybody else's technical infrastructure, which is why we developed our own transaction processing capability with Horizon's investment. However, even though our ATMs operated on our own system, they were all connected to one bank: Saambou. The only thing that saved us when Saambou crashed was that the technology was ours, and it was a simpler process to reconnect the entire infrastructure to different banks."

Kark and his team were also acutely aware that they were playing in the world of big banks, so it was important to hold their own, whilst collaborating with them. This didn't only mean investing in proprietary technology, but developing core operational competencies so that they weren't beholden to outside expertise.

"This doesn't happen overnight, but because it was so important to us, we've steadily built up our skills. Today we have a limited concentration of risk with anyone. We work with multiple service providers and suppliers, we always seek to have alternatives, and we're becoming experts in our fields of operation."

5. In recruitment, value character more than abilities

Lesson: The decision on who to hire should be more about EQ than IQ.

"A middle manager must have the technical and intellectual capabilities required for the position, but when it comes down to choosing the right person for the job, character is the most important deciding factor. We're not IQ driven, we're character driven.

"We have two full-time people [the best in the business] responsible for human capital and leadership development, on-boarding and retention. We understand how important our people are to our success.

"Even with all of these systems and expertise, we still sometimes get it wrong. Always remember that while sub-par performance can be worked around, and worked on, negative attitudes affect everyone on the team. There's always collateral damage. We have 538 employees, and they're all important. We've learnt how destructive one person can be to a harmonious work environment. Bear that in mind, first when you're hiring, and then if a hire doesn't work out. Always try and find an amicable conclusion – after all, both parties are generally unhappy if there's a culture gap – but never ignore the problem."

6. Understand the power of disruptive thinking

Lesson: If you want to make a mark in an established industry, you have to be willing to disrupt the market – and fail a few times in the process.

According to Clayton Christensen, author of *The Innovator's Dilemma*, a disruptive innovation creates a new market and value network that will eventually disrupt an already existing market and replace an existing product. Kark calls it 'changing the game', referring to incumbents who aren't adequately prepared to service the new market that innovative disruptors create. Because they can't adapt their business models quickly enough, the new guys on the block move up, and compete in the existing market share and create new ones as they go.

The problem is that disruptive innovators who do their jobs properly end up becoming incumbents themselves – which just opens them up to becoming casualties of disruptive innovation in turn.

So, how do you become a disruptive innovator in the first place, and then hold onto your market once you've grown it, and continuously find new markets?

"This is such an important point for sustainable businesses today – first, how to get there, and then, how to stay there," says Kark. "We're a non-traditional company in a traditional banking environment. We built a business by being disruptors. But you need to be careful, because you don't want a new disruptor to catch you.

"A lot of businesses run into problems because they can't scale. For example, running one fish and chip shop is very different to running ten. With ten there's ten times the complexity. But 1 000 stores isn't 100 times as complex as running ten. It's a million times more complicated. Scale and complexities are exponential. You need to invest in people and the right technology to deal with this. Part of building and maintaining a sustainable business is having the right infrastructure to do so. And then of course you need to stay flexible and keep a close eye on the market. If anything changes, you need to be able to respond quickly.

"This takes people. Great people. The problem is that while you're on your growth path, you can't necessarily afford the best and most experienced in the market, so the trick becomes hiring people who you can see will grow with the position – you're not hiring for now, you're hiring for where you want to be.

"We've learnt to always hire well above what the position requires at the time. This has meant that we've had to have faith in our own growth abilities. We were always running. Our boots were too big for us, always believing that we'd catch up and fill them. We were constantly scaling to do the deals we were doing. We said yes and then figured out how to do it later.

"The trick is not to let early failures get you down. We fell into every pothole, but we kept going. We picked ourselves up, dusted ourselves off, learnt from the mistakes and pushed on. Disruptors have to be willing to fail as well, as long as lessons are learnt, and the same mistakes aren't made twice."

Paycorp has a range of products spanning hand-held payment processing devices, prepaid cards and ATMs.

> "The only thing that saved us when Saambou crashed was that the technology was ours, and it was a simple process to reconnect the entire infrastructure to a different bank – or multiple banks."

7. Don't let non-core activities distract you

Lesson: A lot of opportunities look great; just remember that every time you say yes to something, you have to say no to something else.

One example of this in the early days of ATM Solutions was DVD vending machines. "They seemed like a great idea at the time," says Kark. "The payments component was simple for us, our existing client base of convenience retailers and forecourts seemed like a perfect fit for the product, and our sales and technical teams were already on-site servicing ATMs."

As a result, the team quickly took the decision to begin importing expensive vending machines from Italy and placed them with a number of their existing clients. Unfortunately, a few key issues quickly became apparent. "The vending tech was clunky, unreliable and time-consuming, the retailers didn't really like the valuable retail space it took up in-store and most importantly, we'd actually misread the market, which was already changing. The demand we'd envisioned just wasn't there. On top of everything else, we had to spend a lot of time making sure the latest DVDs were in the vending machines, and we had to deal with damaged and lost DVDs. This was a complete distraction for a side product that was neither our core, nor very lucrative – the economics just didn't make sense. We still have a few of those vending machines stored at the back of our warehouse."

For Kark, the lesson has been an enduring one. "There's a cost to every decision, so you need to weigh up the pros and cons. For example, are you paying too much attention to a customer that brings in R2 million, but costs you R25 million because of the distraction? When you're saying yes to something, your 'yes's' should be for core activities and capabilities. Everything else should be a clear no." **EM**

2004
DrawCard is launched, pioneering prepaid card programmes in South Africa.

2005
Ethos Private Equity buys a 30% stake in the business.

EFTPOS is launched, offering card acceptance to small and medium retailers.

2007
Kanderlane merges with JMR to form Transaction Capital. The new entity specialises in payment services, lending and collections. (JMR's primary business was taxi finance and receivables management).

Kanderlane is renamed Paycorp under the new corporate entity.

2012
Transaction Capital lists on the JSE.

2013
Global private equity firm, Actis, which specialises in emerging markets and loves the payments space, approaches Transaction Capital and, in turn, Kark to invest in Paycorp.

Kark and his management team co-fund a management buyout with Actis for R1 billion.

2014
Paycorp acquires Kazang and a majority share in Tutuka.

Processes over R50 billion annually.