As Square considers IPO, rancor from merchants is a trouble spot

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Square came in handy for Camilla Barry in accepting payments at her bed-and-breakfast in the Northern California town of Rumsey - until a guest disputed a room charge in May.

That's when Barry discovered that Square Inc., which enables merchants to accept credit cards using a smartphone or a tablet, doesn't take phone calls from its customers.

Callers are greeted with an automated message, directing them to an online help center or to email their questions, and then they are disconnected.

Barry said she grew so frustrated exchanging emails with customer service representatives that she drove two hours to the company's San Francisco headquarters to get some help in person.

Instead, she cooled her heels in the lobby for a couple of hours. No one would speak to her, she said, and the security guards threatened to call the police. Then Square deactivated her account, saying "high-risk activity was detected."

"I got a laugh out of that," Barry said. "They meant I was a high-risk person because I showed up demanding service."

Square isn't the only tech company that is more self-service than customer service. But growing complaints from merchants come at an

inopportune time for one of the tech industry's hottest companies.

The San Francisco startup, led by Twitter Inc. co-founder Jack Dorsey, is weighing an initial public offering of stock as soon as this year. Its value hit $5 billion this month when investors privately bought shares from employees and shareholders, according to a person familiar with the transactions but not authorized to comment publicly.

Silicon Valley likes to pat itself on the back for coming up with innovative products and services that the world often falls in love with.

Customer service, though, usually consists of offering online help tools, not staffers sitting by the phone. That cuts costs and is usually enough to resolve an issue - until users encounter a major problem, such as their Facebook account being hacked or their funds being frozen.

The volume of rancor has been cranking up in recent months as one unhappy Square merchant after another has turned to the Web to gripe about not being able to reach a live human being and warned fellow merchants to steer clear of the company.

On Phillip Parker's website CardPaymentOptions.com, there are more than 1,100 comments, many of which are negative.

"Square actively does not want people to call," Parker said. Yet, he said, the company doesn't make its policy on freezing funds clear enough to merchants.

What's confusing to merchants is that Square is an aggregator, not a credit card processor, and as such offers less service to customers, said Ben Dwyer, founder of CardFellow, an online marketplace where credit card processors compete for merchants' business. An aggregator routes transactions to processors, enabling merchants to accept credit cards

without setting up accounts with the card firms.

"You pay for what you get, and in the case of Square, you usually pay too much," Dwyer said.

Square defends its customer service, saying it responds quickly by email, typically within 24 hours and, during business hours, frequently within six hours.

Square also has a Twitter support feed that takes questions from users. If it freezes someone's funds because a transaction appears suspicious or a buyer has disputed a charge, Square says in "many instances" it gives small-business owners a phone number to call.

"Our goal is fast, efficient customer service that gets people immediate answers to their questions whenever and however possible," the company said in an emailed statement. "In addition to email and real-time Twitter support, we have a robust online help center that customers can visit any time. We also provide phone support for some issues and continue to test new ways to help our customers as quickly and efficiently as we can."

Is that enough? Not always, said Micah Solomon, a customer service speaker and author.

"Good customer service is good customer service. If you answer emails promptly, that's different than if you make people wait," Solomon said. "But you should be available by the channels your customers are asking you to be available by. Not everything can be resolved by email and certainly not by social media."

Before Square and other mobile payments companies came along, merchants had to fork over hefty fees to accept credit cards.

With Square, small businesses fill out a form, download the app and plug a reader into a smartphone or tablet. There are no long-term commitments or monthly fees, just a flat rate of 2.75 percent for swiped transactions and 3.5 percent plus 15 cents for each transaction that is manually entered.

That has been a stroke of good fortune for Ruth Jenkins, who runs a shopping service in Oxford, Pa. She says Square has helped her small business stay afloat.

Her credit card fees used to add up to about 30 percent of her annual sales. With Square, she estimates she saves an average of $300 a month.

Jenkins says she has seen the online complaints about Square's customer service, and says Square may not be for every business. But, she says, it suits her.

"I always get a response when I contact them via email," she said. "They always have responded quickly."

Square decided to respond to customers electronically whenever possible in large part because of the high costs associated with fielding customer inquiries over the phone, said Rick Oglesby, senior analyst with Aite Group.

An average small-business owner rings up just $3,000 to $4,000 in sales on Square each year, he estimated.

"When you deal with very small merchants, and particularly with the pricing paradigm Square has - pay as you go, no monthly fees - it's not a very profitable segment," Oglesby said. "You can't afford a lot of additional costs."

Square has good reason to keep a lid on its costs. As it prepares for an IPO, Square is facing rising competition from established companies such as PayPal, part of eBay Inc., and a slew of startups including IZettle in Europe.

"Square is doing everything it can to get to profitability to enhance its market value when it goes public," Oglesby said. "So I can certainly understand where the company is coming from and why they are doing it this way."

It's unlikely complaints from small businesses will cast much of a shadow over an IPO unless Square has a high rate of customer attrition, Oglesby said.

Should Square offer small businesses more hand-holding? Perhaps in some situations, Solomon said.

"Google and Facebook do not consider us, the public, their customers. Their customers are the advertisers, and their product is free. With Square, I think of the merchants as being the customers," Solomon said. "There need to be escape hatches for when one needs human intervention."

Ann Harris, who has a farm outside Boston and also stores cars in the winter, says she happily used Square for more than two years.

"It worked great, and customers were happy that I could scan credit cards easily. I was definitely pleased with the ease and cost of the service versus a traditional credit card processing service," she said.

But then a transaction for $360 to store a customer's car didn't go through.

"When I poked around the site for support, I was shocked to find no phone number for customer service and had to hunt for some time to find their email form for issues," Harris said.

She says she wrote Square an email and got a reply that the company was looking into the situation "with no information on when I might expect a response or how we might resolve this."

"It seems very strange to me that a company that deals with financial transactions can be so bare-bones when it comes to customer service," she said.

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