

Smartphones take charge: Small merchants expand their sales with mobile credit card services

July 22 2011, By Mark W. Smith

Coming soon to a garage sale near you: "All major credit cards accepted."

Mobile payment services that turn a smartphone into a [credit card](#) terminal for easy transactions are popping up across the country, in places ranging from dog food stores to farmers markets.

The services could forever change how small merchants - and even Girl Scouts - take payments.

After signing up for a mobile payment service, users get a free [credit card reader](#), which usually plugs into the smartphone's [headphone jack](#). The service then takes a small cut from each transaction and sometimes a flat fee per swipe.

Christopher Gorski, 41, of Ferndale, Mich., uses the mobile payment service Square to take payments for the Detroit-themed T-shirts he sells out of his 1979 step van (think ice cream truck) at local events and markets.

Gorski started using Square in December and says he has seen his sales increase now that he's no longer limited to accepting cash and checks. He's getting more customers and they're spending more.

"If they're going to pull out a credit card, they're more willing to buy more," says Gorski, who uses the Square reader with his Android-based Motorola Droid X smartphone.

Gorski sees \$19.45 deposited into his bank account the day after he swipes a credit card for a \$20 T-shirt. Square gets 55 cents. Traditional credit card terminals have always taken a cut, and also carry set-up and monthly fees. These services do not.

The darling among mobile payment services, Square says it has shipped more than 500,000 credit card readers in the U.S.

Square's co-founder and CEO, Jack Dorsey, is also the creator of Twitter. The company has seen a massive influx of venture capital since launching in October, placing its value at more than \$1 billion.

Traditional financial institutions are getting into the game, too, including PayAnywhere, an offshoot of credit card processing firm North American Bancard. Web giants [Amazon](#), [eBay](#) and [Google](#) are also expected to compete.

The services thrust the smartphone even closer to the center of our lives.

"Technology will evolve where the phone becomes your wallet, your keys, your everything," says Jason Raznick, a spokesman for PayAnywhere, which also offers a smartphone app and free credit card reader accessory.

All the services work on Android-based smartphones and Apple's mobile devices - including the iPhone, iPod Touch and iPad.

OPENING JITTERS

It can be a bit unnerving to some customers to see their credit card swiped into a smartphone, Gorski says.

"Maybe 2 percent of people are nervous," he says.

To get a receipt, the customer can choose to provide an email address or phone number for text message. Merchants using Square aren't given access to a customer's credit card information, email address or phone number.

Last summer, before its public launch, Square changed its risk-management policies after questions that customers were being put at risk of fraud.

New merchants are now limited to receiving a maximum of \$1,000 per week. Any funds more than that are deposited within 30 days to ensure their validity. Trusted sellers can increase their limits.

Customers are still protected by any of the safeguards that their credit card company employs.

CHOOSE WHAT'S BEST FOR YOU

Shannon Smith, 39, of Ferndale, researched her mobile payment options and landed on GoPayment from Intuit, the maker of Quicken personal finance software.

She liked that GoPayment offered phone support, something Square does not.

"Sometimes you just want to talk to someone," says Smith, who sells handcrafted jewelry and organic body products. She used GoPayment's phone support to help her set up her account and get the reader working.

PayAnywhere also provides phone support.

For Erik Valind, a 27-year-old commercial photographer based in Royal Oak, Mich., Square has been a way to make his business almost completely paperless, an important step toward keeping green.

Valind says he gets paid faster than if he mails out paper invoices, which give customers a month to pay.

"They're more apt to whip out a credit card and pay you that day instead of putting it off for 30 days," he says.

Always having a credit card reader at hand can have perks for a merchant's personal life, too. Imagine being able to settle a tab at the end of the night with friends - even the one who didn't bring any cash.

Gorski jokes that if he picks up the tab, he can now say to a cashless friend: "Oh, I take Visa, too."

"I haven't done that yet," he says. "But I could."

A LOOK AT THE FEE STRUCTURES

The top [mobile payment](#) systems all work very similarly, but carry different fee structures.

Each charge a percentage per transaction and sometimes a flat fee per use.

For Square, it's 2.75% for a transaction that uses the swipe accessory. For transactions that are keyed in manually, Square charges 3.5% and a

flat fee of \$.15.

PayAnywhere always charges a flat fee of \$.19 per transaction but lowers its cut to 2.69% for swiped purchases and 3.4% for those keyed in manually.

I did the math here, and this means that for swiped transactions, Square and PayAnywhere will give the merchant the same amount of money at about \$330. Square will give merchants more money for any transactions that are less than \$330. PayAnywhere will be more lucrative for the merchant on transactions higher than \$330.

Intuit's GoPayment charges 2.7% per swiped card, so it leaves the merchant with a tiny bit more than Square for each transaction. GoPayment's break-even point with PayAnywhere is at \$2,000. Transactions for more than that will be better for the merchant with PayAnywhere. Anything less than \$2,000 will give the merchant more with GoPayment.

For most merchants, finding a service without a flat per-swipe fee will be the way to go.

Expect these numbers to keep changing, though, as the growing number of competitors each look for the upper hand. [Square](#) had once charged a per-swipe fee, but dropped it earlier this year amid increased competition.

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