

Small businesses see mobile payments as chance to lower costs

January 18 2012, By Jennifer Bjorhus

Urban Bean manager Liz Abene started hunting for a new way to process card payments after the coffee shop's transaction fees skyrocketed. It was costing \$60 a month, she said, just to have the credit card equipment on the counter.

Her solution: the small, white, cube-shaped card reader called [Square](#).

Resembling an oversized piece of Chiclets gum, the Square is one of several new approaches that offer small retailers alternatives to complete reliance on traditional payment providers such as Visa, MasterCard and [American Express](#).

The companies - including eBay's [PayPal](#), ProPay and SparkBase - are part of a brewing battle over how we pay for things in person. The volume of mobile card payments surged by more than half in 2011 to \$86.1 billion, according to tech researcher [Gartner Inc.](#), as small businesses look for ways to get around transaction fees for card payments.

Eric Grover, a payments consultant with Intrepid Ventures in Minden, Nev., said the potential market is "huge." Still, he sees Square, which processes payments through a subsidiary of JPMorgan Chase, as an extension of the existing system rather than a disruption.

"They're extending the existing system to potentially millions of very small merchants - piano teachers, plumbers, electricians ... somebody

who in the past would take cash or check," Grover said.

The Square card reader plugs into the headphone jacks on most smartphones and turns them into card swipers, enabling individuals or businesses to accept card payments without the complications of a merchant account with a bank and costly special equipment.

Square sends free credit card readers to people who sign up. Target also sells them for \$9.99.

Users pay 2.75 percent per transaction. That isn't a cheap rate, but it's the only fee users pay, the company says, while traditional payment systems can charge activation fees, monthly or annual fees, gateway fees and hardware rental.

Abene figures Urban Bean is saving about \$400 a month using Square at its coffee shop on Lyndale Avenue in Minneapolis. But she hasn't totally bypassed the card companies that irritated her, since Urban Bean must be hooked into major networks such as Visa and MasterCard for many of her customers' cards to work.

Based in San Francisco, Square Inc. was launched in 2009 by Twitter co-founder Jack Dorsey and glass artist Jim McKelvey, Square now boasts more than 1 million users and says it's processing more than \$2 billion a year annually.

Most users are small businesses - B&Bs, photographers, even traveling musicians, said company spokeswoman Lindsay Wiese. Square also offers Card Case, a smartphone application that eliminates swiping and plastic cards altogether, similar to Google Wallet but based on a different point-of-sale communications technology.

The target: about 20 million small businesses in the United States that

don't accept debit or credit cards, according to the payment-card trade journal Nilson Report.

"There's been a lot of Christmas tree farm lots that have been using Square," Wiese said.

Square investors include major venture capital names such as Khosla Ventures and Kleiner Perkins Caufield & Byers - even credit giant Visa Inc. itself. JPMorgan Chase is an investor and key partner - Square processes its payments through Chase subsidiary Paymentech.

New payment systems could present the industry's traditional players with a significant challenge, according to an Aite Group report last month entitled "Digital Wallets: Who Will Win the Game?"

"The playing field is set for a major battle, and the traditional payments powers appear to be at a disadvantage," it says.

Aite Group senior analyst Adil Moussa called Square's ability to enable face-to-face mobile credit card processing quickly, without requiring users to set up a merchant account with a bank, "a huge advantage."

Doomtree Records agrees.

A few years ago, the independent hip-hop label in Minneapolis was searching for a better way to handle customer payments on concert tours. Forcing people to trot off to an ATM machine for cash to buy T-shirts, CDs and beer cozies was definitely crimping Doomtree's merchandise sales, said Doomtree member Ander Other. Then it started using Square.

"It's super easy to deal with it compared to previous card readers where you had to get a merchant account from a bank and have this really huge, almost dorky-looking card swiper that you'd see in a coffee shop or

something," Other said.

Experts disagree on just how much effect Square will have in the rapidly evolving card payments industry. Moussa describes it as "extremely disruptive" - particularly for banks selling card processing services to retailers.

"It just eliminates so much and makes it a solution that's in the hand of everybody," Moussa said.

"It is bypassing the traditional channels and making it more accessible."

But Square has plenty of competition. There are about 100 providers selling card-processing services to retailers, according to industry estimates. Nearly every major player has a mobile credit card processing system and is courting retailers small and large, Grover said.

Minneapolis-based U.S. Bancorp, via its Elavon subsidiary, is in on the game, too. In early 2011, it introduced a similar technology for mobile devices called VirtualMerchant Mobile. It has less than 200,000 active users, the company, but it is targeting somewhat larger retailers and not the "micro merchant space" pursued by Square, said Elavon spokeswoman Michelle Wagner. Unlike Square, it requires the user to have a merchant account with a bank.

"We're just at the beginning of this whole evolution in mobile technology," Wagner said.

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Citation: Small businesses see mobile payments as chance to lower costs (2012, January 18)
retrieved 26 April 2024 from

<https://phys.org/news/2012-01-small-businesses-mobile-payments-chance.html>

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