

Sales by Swipe

Mobile payment solutions allow business owners to make sales on the spot.

Here's how the options ring up.



BY YASMIN GHAREMANI

Luis Morales wanted to accept credit cards when his company, Humble House Foods, began selling artisan products at the Pearl Farmers Market three years ago. But traditional card processing was too expensive. And he wasn't about to lug a payment terminal out to the market every weekend, even if a bank would approve him for a merchant account.

Then he heard about Square, the mobile payment system from Square Up that works through a free smartphone app. He ordered the card-swiping dongle — also free — that plugs into his iPhone's earphone jack, and instantly improved his business. Customers who want a receipt can have it e-mailed to them.

A year-and-a-half later, credit card transactions make up a quarter of Morales' sales.

"This is all business we wouldn't be capturing if we didn't have this system," says Morales.

Morales is not alone. Thousands of San Antonio merchants who have been shut out of the traditional card processing world are now able to accept cards using devices like Square.

"The first market that's really taken off in mobile payments is the one that's called the micro-merchant space — where the logistics just don't work out for them to

ERIK REYNA / SAN ANTONIO BUSINESS JOURNAL

Luis Morales, owner of Humble House Foods, was missing out on customer sales by accepting cash and check only. Since using Square, a card-swiping mobile payment system, Morales estimates credit-card transactions account for one-quarter of the sales of his local and artisanal spreads.

have a traditional merchant account," says Rick Oglesby, senior analyst at Aite Group. "Either they don't sell enough to qualify or they just don't see the value proposition in spending \$300 on a terminal — and a wireless terminal is easily double that."

Cash is so 2002

Accepting cards is more important than ever for businesses that want to reach the lucrative plastic-loving market. Numerous studies show that consumers spend more when they use credit cards

than when they use cash.

But banks typically expect a charge volume of \$100,000 a month before they'll even talk to a business about a merchant account. Not so with Square. Square merchants average about \$5,000 a month, according to Oglesby.

Square's flat fee is also simpler than the tiered fees of a traditional processor.

The company charges a flat 2.75 percent on all swiped credit and debit cards, and 3.5 percent plus 15 cents for numbers that are manually entered.

The rates traditional processors charge vary.

Square's fee is higher than what Humble House's Morales has seen for MasterCard or Visa, but it's a steal for American Express, which makes up half of his charge

See SWIPE, Page 22

'The first market that's really taken off in mobile payments is the one that's called the micro-merchant space — where the logistics just don't work out for them to have a traditional merchant account.'

Rick Oglesby
Senior Analyst
Aite Group



SWIPE: Consider transaction fees, data security when choosing mobile payment product



Heartland Payment Systems's Sherry Willis consults with Pedro Cabrera, the co-owner of Los Jalapeños restaurant, as he uses Heartland's mobile payment system.

FROM PAGE 21

transactions.

One of Square's main competitors, Intuit's GoPayment system, charges an even lower 2.7 percent for qualified cards, but 3.7 percent for keyed numbers, reward cards, business cards and other special cards. American Express is not covered by the flat fee.

Still, some merchants find it a bargain. Barbara West, the owner of Honey Creek Gourmet candy company, uses GoPayment at trade shows where she sells gourmet items wholesale, as well as at her shop in Bulverde.

West says she pays one-fifth of the hard-to-understand fees she was spending every month with Chase Paymentech. What's more, she's replaced the single, \$800 Chase terminal she had with multiple free GoPayment swipe devices, allowing several employees to handle sales at the same time.

Measuring safety

Security is another reason West signed up for GoPayment. Like Square, GoPayment uses end-to-end encryption, meaning the card number is unintelligible to anyone until it reaches the card processor. Both systems are PCI (Payment Card Industry) compliant — an information security standard for companies dealing with payment transactions — ensuring no information is stored with the merchant. "From a security standpoint, that's the most important thing — to make sure you don't have any risk of having any information harvested from your systems," says Aite's Oglesby.

Ruben Carrasquillo, the owner of Caffé Tutti, never even considered going the traditional route when he opened his coffee and art cafe on Fredericksburg Road in the Deco district of San Antonio last November.

Continued on NEXT PAGE

Subscribe to our award-winning Investor Alert

Every Friday, our portfolio managers reflect on the markets, geopolitical events and economic research affecting your investments and prepare an email report highlighting the strengths, weaknesses, opportunities and threats we see on the horizon.

In each issue, we include a special timely commentary from the desk of CEO and Chief Investment Officer Frank Holmes.

Our award-winning **Investor Alert** is frequently featured on well-known investment news websites, including Morningstar, TheStreet.com and Forbes.

Sign up for your free email subscription today!



Go to www.usfunds.com/subscribe and sign up today or call us at **1.800.US.FUNDS** and we'll sign you up.



U.S. Global Investors is a San Antonio-based boutique investment advisor specializing in natural resources and emerging markets.

How to choose a c

In the market for a mobile or trad
Answering these questions can e

- **What kinds of features do I need?** — D system that tracks inventory, customer traffi I just need to be able to process credit card p
- **What fees are involved?** Transaction fees s fied credit, rewards cards and business card also be monthly service fees and terminal lea
- **How fast is the funding?** Will proceeds fro and if so, is there an extra fee for the quick t
- **Can you understand the processing stat** cause the statements are so hard to read," sa land Payment Systems.



- **What busi** can it's a an e tomo Grou wha

FROM PRECEDING PAGE

A serial entrepreneur, Carrasquillo says working with processors is a hassle. It could take 20 minutes just to get someone on the phone. In contrast, he set up the Square system and accepted his own \$1 payment in five minutes.

Square is now growing the size of business it serves with Square Register, a product that works with tablet computers. It acts as a cash register and a card acceptance scheme, with the same fees as Square.

Bigger business solutions

But at some point, larger businesses will probably want more features than a tablet-based system can offer. A flat fee may also be unattractive. "More traditional systems can be less expensive for larger businesses," says Vin D'Agostino, senior vice president at Chase, an investor in Square Up. "With volume comes the ability to lower the price."

Indeed, Pedro Cabrera, the co-owner of Los Jalapeños restaurant at the corner of Babcock and Prue roads, investigated Square but found the rates hefty.

Instead, he found a mobile payment system through his processor, Heartland Payment Systems, the country's sixth-largest payment processor, with a sales force in almost every U.S. community.

Heartland's \$69 Mobuyl reader and free app smooth payments for Los Jalapeños' delivery customers, who make up 30 percent of his business.

"It's better to swipe the card than to have the customer read their card number over the phone," he says. "You don't know if it's even a real person when they do that."

Like other merchants, he was fed up with hidden fees and poor customer service from his previous processor. Then he met with Sherry Willis, a San Antonio area payments and payroll specialist for Heartland — the only payment system endorsed by the San Antonio Restaurant Association. Willis' hands-on customer service, coupled with Heartland's transparent fees,

have made a difference. "There's never been a time when they haven't returned my call," says Cabrera.

Of course, the holy grail of mobile payments for business owners is to have customers sign up for loyalty accounts, pay-in-advance programs, and payment-by-phone tapping on a near field communication (NFC)-enabled device. Emerging programs such as Google Wallet and ISIS allow such relationship-building. But it will take years for the technical infrastructure and card culture to catch up.

"It's still early," says Chase's D'Agostino. For now, mobile acceptance solutions are the reality, growing by the day.

YASMIN GHAREMANI is an Austin-based freelance writer who covers business, science and technology for publications across the globe.



Los Jalapeños co-owner Pedro Cabrera, has his delivery employees use Mobuyl to process off-site payments.

"Seems like regulations are increasing as fast as the demand."

People who know Natural Resources, know BDO.



The Natural Resources Practice at BDO

Operating at the center of multiple political debates, the industry faces unique challenges. BDO's Natural Resources practice combines deep industry knowledge and technical experience to help you navigate this tumultuous landscape both at home and abroad. Our professionals provide swift resolution of technical issues and questions through partner-led client service teams and a global network spanning over 100 countries.

Edward Guerra, Assurance Practice Leader

Allen Robertson, Tax Practice Leader

40 N.E. Loop 410, Suite 200, San Antonio, TX 78216 210.342.8000

Accountants and Consultants
www.bdo.com/natural-resources



© 2012 BDO USA, LLP. All rights reserved.

credit card system

Additional point-of-sale system?
Ensure you make the right choice:

Do I want a touch screen register or a back-end system with specials or discounts automatically? Or do I want a system that handles off-site payments?

Answers usually depend on the type of card. Debit, credit, or gift cards may invoke different kinds of fees. There may be processing fees.

Can transactions be in your account the next day, or is there a turnaround?

What is the payment? "A lot of processors add in junk fees beyond the card payment," says Sherry Willis, payments specialist for Heartland.

What can the system do to help me grow my business? Many have value-added features that can help increase loyalty and drive more volume. "If you have a tablet can I click a couple of buttons and send an e-mail blast with a special offer to my best customers?" says Rick Oglesby, senior analyst for Aite Group. "That's the sort of stuff that's really beyond what a payment terminal is giving you today."

—YASMIN GHAREMANI