



Small businesses turn to Square for credit transactions

By Jon Swartz
December 9, 2011

SAN FRANCISCO – Cabbie David Mendoza reaches for his iPhone and plugs in a spiffy Square Reader to process a ride's fare.

"When customers see it, they either say 'What is that cool device?' or 'Hey, that's Square,'" says Mendoza, 32, who used to struggle with a bulky payment device that was slow to pay him and hard to store records on.

Within a week of using Square, Mendoza was sold on the device — as were his customers, many of whom would rather pay with a credit card instead of cash. "I wanted simple, and got it," says the cab driver.

Mendoza is one in a growing legion of devotees to Square, a credit card-processing company co-founded by Twitter inventor Jack Dorsey. Merchants nationwide have snapped up the small, white plastic device to quickly and inexpensively accept payments.

Despite a struggling economy, Square has found a lucrative niche among small businesses and is becoming a go-to fixture for a variety of companies — ranging from those hawking quirky goods to vendors at local farmers' markets. Even some Salvation Army bell ringers collect charitable donations via the Square Reader.

This year, Square, which makes its money by collecting transaction fees, has helped merchants process sales for \$2 billion worth of luxury goods, such as jewelry, and for specialized services, such as massages and goodies at vegan-doughnut shops. The average purchase on Square: \$75.

But Square faces formidable competitors and major hurdles to becoming a force with big retailers and corporations. "While Square is new, it's just facilitating a 50-year-old payment mechanism — mag-stripe cards," says Nick Holland, an analyst at market researcher Yankee Group.

Mobile-payment transactions are expected to nearly double this year, to \$86.1 billion from \$48.9 billion in 2010, according to market researcher Gartner. Worldwide mobile payment users, meanwhile, will swell 40%, to 141.1 million in 2011, from 102.1 million in 2010.

Others have taken note of the trend lines. Google is the latest company to jump into the fray, joining PayPal, Intuit and scores of others. "It is a gold rush," Holland says.

Squaring up

Since its device and app became available last year, Square has gained more than 800,000 customers, who typically pick up Square for free through the company's website, or with a rebate from retail stores including Apple, Best Buy, Wal-Mart, Target and RadioShack.

Smaller businesses primarily use Square's small white plastic device, which plugs into the headphone jacks of mobile phones and tablets, to perform transactions.

The start-up has grown quickly by raising capital from the likes of Visa and venture capital firm Kleiner Perkins Caufield & Byers and Sequoia Capital, and enlisting heavyweights such as Sun Microsystems co-founder Vinod Khosla and former U.S. Treasury secretary Lawrence Summers to its board of directors.

When Square landed \$100 million in funding in June, some analysts pegged its market value at more than \$1 billion. Virgin Group head Richard Branson invested an undisclosed multimillion-dollar amount in November.

Square's card reader and apps have caught on because of the "transparency and simplicity" the company has brought to transactions for businesses, says Keith Rabois, Square's chief operating officer.

Customers who purchase smartphones at Best Buy often pick up a Square Reader in the process, says Robert Stephens, chief technology officer at the retailer.

The feisty, 200-person private company based here, has no intention of ceding its place as a favorite among pop-up shops and individual entrepreneurs.

"Square is hitting its stride," says Holland. "When they first started, I thought: 'Not a chance.' But it has found many niche markets, it's free, and it improves cash flow for small businesses, which many live and die on."

Early adopters of Square attest to its simplicity. Says Miki Nishihata, owner of Hello Bicycles in Seattle: "There is no risk in starting with Square, and no cost to have it available, even if not frequently used."

Joey Garza, a private massage therapist in Houston, says he wanted to bypass the week-long wait for getting a standard point-of-sales system. It took just a day with Square, which he says has saved him several thousand dollars since he became one of the first merchants to use it in October 2010. He credits low-cost fees associated with Square.

Square was up and running in no time at Zeroz, a maker of hand-crafted wallets in Columbus, Ohio. "We did not want to have a traditional point-of-sale and link to some clunky register slapped to a counter," says Zeroz owner Paul Westrick.

Traditional point-of-sale systems require an upfront investment and monthly fees. Square sidesteps that through the use of smartphones and tablets, says Rick Oglesby, an analyst at market researcher Aite Group. Square charges merchants a 2.75% fee for each purchase.

Heady competition

The promise of mobile payments has made for a stampede of companies getting into the business.

They're drawn by forecasts that more Americans than ever will buy smartphones and tablet computers this year, raising consumer electronics sales 5% to a record of \$190 billion in 2011, says the Consumer Electronics Association.

Yet the mobile-payments market is growing more slowly than proponents expected, Gartner say. Mass-market adoption for such payments is at least four years away.

Less than 6% of U.S. adults online have used any type of mobile payment, although more are expressing interest — 18%, up from 11% in 2008, according to a Forrester Technographics survey this year. But consumers who do use mobile payment technology are regular users, the survey found.

A look at some mobile-payments competitors:

- American Express' Serve digital-payments platform allows person-to-person payments on mobile phones, online or at merchants that typically accept regular AmEx cards.
- ClearXchange, a joint venture of Bank of America, Chase and Well Fargo, lets bank customers make person-to-person payments using an e-mail address or mobile phone number.
- Google in September introduced Google Wallet, a platform that uses Near Field Communication (NFC) wireless technology for one-tap payments. By some reports, the market for NFC — which Square does not utilize — is expected to grow, with an increasing number of smartphones embedded with NFC chips inside.

Google's Wallet application incorporates its own type of loyalty program, tailored to automatically apply rewards when a customer spends money at participating businesses. Google also ties in featured offers from its SingleTap partners such as Gap and Jamba Juice, applying any discounts to the purchase with a simple wave of the NFC-enabled device.

"We work with existing (cash) registers as a complementary technology," says Marc Freed-Finnegan, senior business product manager for Google Wallet. Some 140,000 merchants use the service, including the Gap, Jamba Juice and Foot Locker.

- PayPal is the leader in mobile payments, with a projected \$3.5 billion this year, vs. \$750 million in 2010. It boasts 103 million active users, and in the next 12 to 24 months, it plans to unveil

technologies that give consumers the choice to "swipe, enter or tap" mobile devices when they pay.

In the past two years, consumers have become more comfortable making payments with mobile devices, says Sam Shrauger, vice president of global product and experience at PayPal.

- Intuit's GoPayment has partnered with Verizon Wireless and AT&T to roll out a mobile payments strategy for its 8 million small-business customers that generate \$2.6 trillion, or nearly one-fifth of the U.S. GDP.

- Another contender, WePay, is a website that lets anyone send bills, sell tickets or accept payments. No merchant account, website or programming is required.

- In May, Visa announced a new product to make it simpler for consumers to make mobile payments and to shop online, with a user name and password instead of entering a 16-digit card number and shipping/billing address. Last month, Visa unveiled its name for the product, V.me by Visa. V.me will integrate Visa's NFC-based contactless technology, Visa PayWave, which it has also licensed to Google Wallet and Isis.

It adds up to heady competition for Square which — despite big investments and a high-profile board — is "not on the radar, (from) a global retail perspective," says Matt Kaden, senior associate at investment-banking firm Net Worth Solutions. "To be fair, it is focusing on individual entrepreneurs and pop-up type shops. They are creating a new model that caters well to small businesses."

Compelling as it is for many merchants, it's unclear what impact Square will have on POS systems, says Internet analyst Greg Sterling.

"One thing is sure: Square will be either acquired by a financial institution or go public," he says. "That's not a bad scenario."

New products aimed at larger businesses

In the past few months, Square has taken steps toward serving larger businesses:

- Last month, Square said its reader and app now works wirelessly with cash drawers and receipt printers that merchants already own. The Square Register, available since May, turns iPads into cash registers.

- An update to Square's app for iOS and Android, also available in November, includes the ability to automatically provide loyalty discounts for regular customers.

- Square's recent Card Case application lets consumers "Pay with their Name" at nearby merchants. Card Case uses location data to determine where a user is so that person can pay for things using credit or debit cards linked to their Square account.