

# Mobile Merchants Leading To More Money?

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As one of the first resellers of VeriFone Holdings Inc.'s PayWare Mobile service, Merchant 360 Inc. says some mobile merchants like that the service includes a card reader that enables them to get card-present transaction rates.

"Everybody loves to save money," Steve McRae, CEO of the San Francisco-based merchant-services company, tells *ISO&Agent*. "That's the No. 1 reason why merchants even look at this" as an option.

With the emergence in the past year of such products as PayWare Mobile, Square Inc.'s Square mobile-phone application and Apriva's phone-based applications joining existing mobile point-of-sale terminals from ExaDigm Inc., Hypercom Corp., Ingenico SA and Way Systems Inc., it is not too difficult to see why interest in the segment is burgeoning. The unknown is just how much money ISOs might make from selling the products to merchants.

On the positive side, the mobility of such devices enables farm stand merchants and home-services companies, among others, to accept payment cards instead of cash and avoid dealing with invoices.

The hazard is that the transaction volume and frequency might not be enough for ISOs to make a profit, observers say.

VeriFone's PayWare service has generated a lot of attention.

VeriFone unveiled PayWare Mobile in December as an online payment gateway and card reader that attaches to Apple Inc.'s iPhone, enabling merchants to complete card-present transactions. The terminal maker says it plans eventually to make similar versions available for other smartphones. VeriFone also makes mobile POS devices in traditional terminal formats.

Start-up Square has generated much attention, especially in the consumer media, for its device and software that also operate on the iPhone. To date, Square has released few details about its plans.

Scottsdale, Ariz.-based Apriva's AprivaPay works on Web-enabled smartphones, while AprivaPay Professional uses dedicated software on a mobile phone to enable payment card acceptance.

France-based Ingenico SA, in conjunction with Boston-based Roam Data Inc., is selling RoamPay, which enables merchants to collect card payments, and RoamBuy, which enables

them to create a storefront application consumers can download to their mobile devices. The applications are compatible with "hundreds" of mobile devices "regardless of carrier," according to Ingenico.

## QUALIFYING MERCHANTS

Merchant 360 chose to resell PayWare because it is getting so much attention, especially as VeriFone advertises the product, McRae says. However, many of the merchant leads from inquiries to his company are weak, he says.

"The problem is 80% of them don't qualify for actual merchant accounts," McRae says. That is usually because the business is a side job for the merchant, such as a catering business that operates intermittently, he says.

Another prospective Merchant 360 merchant, a plumbing business, has four plumbers who each have an iPhone. But if each only has three to four transactions per month, PayWare may not be the most affordable option, McRae says.

"If they're doing a couple of [transactions] a day, it absolutely makes sense," he says.

The publicity surrounding mobile-payment terminals, especially the device in development from Square, caught the attention of many merchants, and **ReliantPay**, a St. Louis-based ISO, wants to capitalize on that, says **Tom Mansfield**, **ReliantPay** president. However, merchants already owning an iPhone are curious about PayWare, and those without an iPhone are not as interested in the VeriFone service, he says.

Merchants also may be put off by the cost of the iPhone itself. The cheapest version sells for \$99, but it requires a two-year contract with AT&T Inc. plus a two-year contract with VeriFone if the merchant does not want to pay for the card reader. PayWare Mobile also works with Apple's iPod Touch, but only when connected to a Wi-Fi network.

**Denny Kammer**, **ReliantPay** vice president, expects a BlackBerry version of PayWare Mobile to have a larger impact because more businesspeople have BlackBerry devices.

"We already have some people waiting for it," **ReliantPay's Mansfield** says.

**ReliantPay** picked up PayWare Mobile also because of the promise it could entice new merchants to sign with the ISO. "If you get one or two on the iPhone and their merchant accounts, it makes sense," **Kammer** says.

**Mansfield** says one estimate he has read is that 18 million mobile merchants exist, and he wants to tap into that pool. The pool of brick-and-mortar small-business merchants is exhausted, he says.

Success at selling into the 18 million mobile merchants requires devising a strong return on investment for the merchant and the ISO, **Kammer** says. "Ticket size will drive the return on investment," he says, noting a merchant with high average ticket size will cover its initial costs sooner than will a merchant with lower ticket sizes.

Setting up a mobile account can be difficult to justify for an occasional merchant, **Mansfield** says. Still, he sees potential in the mobile terminals.

"As far as how much [money can be made], that's to be determined," **Mansfield** says.

## THE PAST REVISITED

Vision Payment Solutions LLC has been selling mobile-payment products for the past 10 years, says Steve Gent, Vision vice president of business development. So when the VeriFone mobile-phone product debuted, it made sense for the Portland, Maine-based ISO to add it to its inventory, joining Apriva and Way products.

"What happens with the VeriFone product specifically is it really is the first piece of hardware that works with the iPhone to give merchants card-present rates at a very reasonable price," Gent says. "The competitive advantage is they don't have to invest \$600 to \$700 in another piece of equipment."

The prices overall are dropping for wireless devices, Gent says. A recent sales e-mail from Tasq Technology, a POS-equipment distributor, says a Way MTT 1581 is available for \$125. A year ago, the same device sold for \$349 from Tasq, a unit of Atlanta-based First Data Corp.

"Price-point barriers to entry have come way down," Gent says.

Vision's sales agents are receiving "moderate" interest from merchants about VeriFone's product, Gent says, noting there is little else to indicate merchants will want PayWare. "It's so new to the market, market forces haven't driven it any direction," he says.

VeriFone, however, has found the early PayWare users are completing big-ticket purchases using the devices. "What we're finding with our first class of iPhone users, and there's many that are up and live, is that these are surprisingly high-ticket transactions, \$100 to \$200 per average ticket," VeriFone CEO Douglas G. Bergeron told analysts during a conference call last month to discuss the terminal maker's fiscal first-quarter results.

But the service's volume so far is relatively low, not exceeding 20 transactions per month, Bergeron said.

VeriFone would not say how many merchants are using the service. About 70 ISOs are selling PayWare, Bergeron says.

## MAKING MONEY

Given the low volume of PayWare transactions, VeriFone expects to make most of its money from recurring monthly fees, Bergeron said. VeriFone's suggested pricing calls for a \$15 monthly gateway fee and a one-time \$49 sign-up fee for merchants with existing accounts. Payment gateways enable online connectivity to multiple processors. Merchants also pay VeriFone 17 cents per PayWare Mobile transaction.

Acquirers are free to develop their own pricing plans. But the markup potential on PayWare Mobile is "pretty tight," Reliant Pay's Mansfield says.

Merchants that know of the wholesale pricing for PayWare Mobile can make it difficult for an ISO to add a profit margin to the product, McRae says. Adding just a bit can cause some merchants to ask what happened to the 17-cents-per-transaction fee, he says.

"That's what VeriFone charges wholesale," McRae tells them. "We have a hard job reselling the whole thing because they're all expecting \$15 a month" as their gateway fee expense.

Vision Payment is following the pricing structure suggested by VeriFone "because they put it out there for anybody and everybody," Gent says. That pricing is passed along to Vision's sales agents, who receive a share of the profits.

Merchant 360 makes \$3 per initial merchant sign up from each PayWare-enabled merchant account, McRae says. "We did it for the exposure and the marketing associated with it," he says of adding the VeriFone product.

The real payoff is capturing merchants that previously did not accept payment cards and being at the forefront of a new payment technology, Gent says.

Tom Stone, Vision chief operating officer, recalls a conversation he recently had with a book publisher whose transaction volume is small. When told of a smartphone payment device, the publisher became intrigued, he says.

"His as well as thousands of other businesses are saying this is easy for me to use and safely make a transaction at a cost that is relatively nominal and provides me with a way to do that when I want to do it," Stone says.

## REACHING MERCHANTS

Different strategies are emerging for getting to that "first-to-market" crowd, the group of early adopters, for mobile POS products.

Way, Apriva and ExaDigm do not sell directly to merchants, an approach that VeriFone is eschewing for PayWare Mobile, which is available from POS-equipment distributors and in April was to become available in Apple Inc.'s retail stores. A search of Apple's online store in mid-March showed no POS equipment available other than Apple's retail POS system.

Direct-to-merchant retail sales of the service may not sit well with ISOs. "Now they're going directly into retail?" asks McRae. "Where's that leave us?"

The intent of making PayWare available in the Apple store is "exactly the same as the intent of our online campaign, which is to try and reach a whole new class of consumer-merchants," a VeriFone spokesperson says. "Regardless of how we reach them, the process of lead acquisition and distribution is exactly the same in both cases."

## A HALO EFFECT

Others besides ISOs also foresee a potential increase overall in mobile transactions.

"The emergence of mobile payments will bring more people to the wireless [POS] market," says Tim McWeeney, Way vice president of North American sales. "There will be a certain number of people not satisfied with an application that sits on a cellphone."

There are plenty of mobile merchants for all of the wireless POS vendors to find success, McWeeney says. "There is enough business for everybody," he says.

Some merchants also might want more than credit and signature-debit card acceptance, McWeeney says. Some will want mobile PIN-debit and check acceptance, he suggests.

**ReliantPay's Mansfield**, as do many ISO managers, offers more than one mobile product to help ensure something is available for a merchant. Some of his customers use Apriva's wireless product and "are doing very well with it," he says, noting **ReliantPay** also has had sales success with Way products.

"VeriFone is trying to capture the first-to-market crowd," **Mansfield** says.

The merchant-services industry wants that crowd and any other type of merchant that can help generate revenue.

No doubt the mobile-merchant segment is enticing. The question remains, can ISOs make money from it?