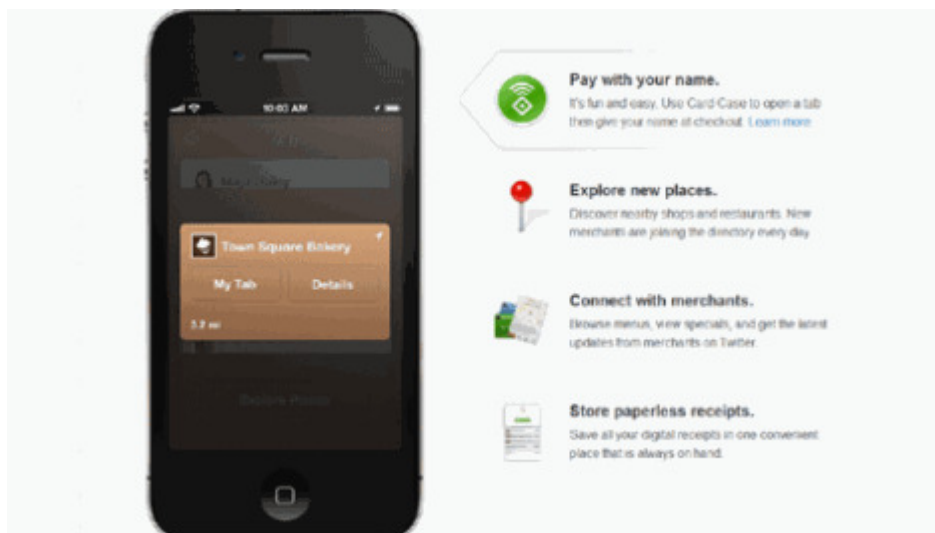




Pay-by-name purchasing: changing the future of spending



Credit: www.squareup.com/cardcase

This screen shot of Square's website shows a description of the Square Card Case, a consumer application that allows customers to open a virtual tab with participating businesses. Customers use their name and a picture to pay for items.

by Emerald S. Morrow

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(KMOV) -- Physical credit and debit cards could soon become relics of a pre-smartphone era, reminiscent of days when consumers' wallets were stuffed to the brim with stiff plastic and dead presidents.

Recognizing the power and ubiquity of smartphones, credit card companies and technology developers have pushed to innovate the way society pays for goods and services through the introduction of mobile payments - using a smartphone to make purchases.

One of the newest forms of mobile payments is the Square Card case, launched this year by the San-Francisco-based company Square, which was founded by St. Louis-native and Twitter co-founder Jack

Dorsey. The cardless form of payment made its way to the market in May, and little by little, local small businesses are taking part in the trend.

How it works

The Square Card Case totally eliminates the need for a physical card in a merchant-to-consumer transaction. It works by storing a virtual copy of your credit or debit card on your smartphone, and acts as a virtual tab. To use it, consumers must download the free Square Card Case application for the iPhone, iPad, iPod Touch or Android. A customer then sets up an account using their name, email address, credit card information and a photo. From there, Square Card Case app users can “explore places,” meaning the customer’s phone will detect local merchants who accept the Card Case form of payment. “Card Case users then can access the Square directory, view menu listings, specials and a map with the merchants’ location and contact information,” said Square spokesperson Katie Baynes. “A Card Case user can then ‘open a tab’ at their favorite local merchants [who must also use Square], and their name and photo will appear on the merchant’s screen.” At that point the merchant will select the items you want to purchase, and a receipt will instantly be sent to your phone.

Who's using it?

A quick scan of the “explore places” feature in the app reveals a wide range of businesses using Square Card Case. These range from event-planning companies and coffee shops to hair salons and mobile restaurants. Pi Pizzeria’s roving pizza truck was the first company in the St. Louis area to have access to the Card Case, and Pi co-founder Chris Sommers said accepting payment via Card Case has increased his business’ efficiency. “Cutting a few seconds off a transaction allows us to serve more guests,” he said. “Guests love it. Initially [those using Card Case were] those who are generally early adopters of technology, but more and more people are signing up just for convenience factors.”

As convenient as it may be, it doesn’t seem that the trend has yet struck the masses. “Maybe on a week’s run, we might get one person using the Square Card Case a day, if that,” said Joel Turnock, Pi employee who helps run the Pi Pizzeria truck that makes lunch stops across the city. “But it seems like it has started to pick up a little bit.”

The low numbers of card case users at Pi could be in part due to the novelty of the product and ignorance of the application. Pi Patron Cory Lewis said he did not know about the app, but would consider downloading it for personal use. “I hate carrying a wallet. I always use my credit or debit card and I probably only have two dollars on me,” he said. “So to be able to just carry my phone would be great.”

Cosmetologist Maria Knight of Strands Salon in Clayton has also integrated the Square Card Case into her business. Knight said she started using Square because there are no monthly fees, commitments or contracts. It also makes for a convenient checkout process at the end of a customer’s visit. “Often times when multiple people are paying for a service, there’s a fight with other clients for desk space,” she said. “But with Square and Card Case, you can checkout from the chair and go.”

Sommers believes it's well beyond time for Americans to get on the mobile payment bandwagon. "This country is far behind the rest of the developed world in our reliance on plastic," he said. "Since we're all carrying smartphones, it's just a natural extension or progression that we'd use to transact those payments."

How fast will it catch on?

While it is true that smartphone technology adoption has experienced tremendous growth, according to a study released by the Pew Research Center in July, only 35 percent of adult Americans own smartphones.

Tom Mansfield and Denny Kammer of St. Louis-based credit card processing company ReliantPay say this means it will take time before plastic-free payments really catch on. "Society is moving toward cardless payment and toward payment by cell phone," says Mansfield, president of ReliantPay. "However, it has to be a domino effect because everyone has to first have a smartphone and merchants have to upgrade their equipment," says Kammer, VP of sales. Kammer also adds that upgrading will be easier for larger companies because they'll have the budget to do so, and the same may not be the case for the mom and pop businesses.

Mario Shiliashki, group head for emerging payments at MasterCard said while cash and cards still rule over mobile payments, consumers will gradually get more comfortable with using their smartphone to make purchases. "2012 and 2013 are the years when we will really see growth in the mobile payment sector," he said. "It's finally becoming beyond just payment, but about the entire shopping experience because mobile payments allow a bigger set of purchasing possibilities." Like Shiliashki, Dave Wentker, head of mobile product development at Visa said that he doesn't expect payment cards to disappear anytime soon. But he says as consumers move seamlessly between phones, computers, social networks and physical retailers, their payment methods are evolving, too.

But for merchants, Kammer and Mansfield note that the 2.75 percent processing fees for Square are significantly higher than those of other merchant accounts. "A true merchant account will offer considerably lower fees, around half of a percent," said Mansfield. "Merchants have to be aware and manage their costs because that 2.75 percent can add up pretty quickly," Kammer said.

However, for many merchants using the Square Card Case, the higher transaction fees are a small price to pay for being able to process low volume transactions for no monthly fee and no contracts. Square says it created this method of mobile payment especially for small businesses who may not have the same need for processing high numbers of transactions as a larger business or corporation would.

Security concerns

J.R. Johnson, another Pi Patron, said while the Card Case streamlines financial organization, he understands why some might hesitate on the technology. "This sounds like it might be more secure than a wallet, but the pendulum swings both ways because cyber crime does exist," he said.

While there have been no known security threats against the Card Case, it was only a few months ago that

the CEO of one of Square's competitors, VeriFone, released an open letter criticizing the security of Square's physical credit card reader. He claimed, "In less than an hour, any reasonably skilled programmer can write an application that will 'skim' – or steal – a consumer's financial and personal information right off the card utilizing an easily obtained Square card reader." In the letter, CEO Douglas Bergeron said he could make this claim because his company actually tested it on their own personal credit cards.

Square's Dorsey offered a quick rebuttal through an open letter. He called the accusations unfair and said they overlooked the protections already included in one's credit card. "Any technology...can be used to 'skim' or copy numbers from a credit card. The waiter you hand your credit card to at a restaurant, for example, could easily steal your card details if he wanted to—no technology required," he said. "If you provide your credit card to someone who intends to steal from you, they already have everything they need: the information on the front of your card."

Sommers sided with Dorsey, saying he's not worried about security issues. "I find it interesting that people are afraid to store personal information on a secure device that's been tested thoroughly," he said. "Yet they'll give a server at a restaurant or a clerk their credit card and watch that person walk away with those 16 digits."

Shiliashki adds there's an inherent level of increased security when people use mobile phones to make purchases. He said all of the passwords and pins needed to access applications and information on smartphones give mobile payments a slight security edge over the average wallet.

What's next on the mobile payment frontier?

While not a direct competitor of Square's Card Case, the recently-launched Google Wallet is also moving society forward with mobile payments. Similar to Card Case, Google Wallet also houses credit card information directly on users' smartphones. It is currently only available on the Google's Nexus S phone through Sprint, and works by using NFC or near-field communications. The phone has a chip inside and an antenna on the back that communicate with an NFC-enabled point-of-sale device, allowing customers to pay by simply waving their phone near the NFC-enabled machine. "The idea with Google Wallet is you can add your credit cards and pay for things at merchants that accept NFC payments, of which there are about 150,000 merchants today that do that," said Google spokesperson Nathan Tyler. Local merchants that accept Google Wallet range from BP to Einstein's Bagels.

Google and Square don't compete on the same plane, as Tyler says Google sees Square as a company with a merchant focus for small businesses. "We think it's great that Square is innovating in payments," he said. "So we think it's a really exciting time and there are a lot of companies out there like Square who are taking innovative approaches to helping make the shopping experience better."

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By Emerald Morrow

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