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MOBILE POS: MORE THAN JUST PAYMENTS FOR MERCHANTS

Mobile point-of-sale (mPOS) systems have created a new and fast-growing market to meet the business demands of merchants

Payments providers, both legacy and emerging, are looking to leverage the mobile point-of-sale, or mPOS, market for both new and existing merchant accounts. The original disrupter, Square, set the competition in motion by meeting the needs of small businesses that wanted a mobile payment acceptance option and services to accompany it. Now merchants of all sizes are realizing that mPOS is a necessary part of their omnichannel strategy in order to best serve the payment preferences of their customers.

by Raymond Pucci,
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Mobile POS Gives New Life to In-Store and On-the-Go Merchants

Let's face it, "brick-and-mortar" merchants of all shapes and sizes are going through tumultuous times. Online shopping, too many stores, changing consumer habits, and sometimes just plain bad business management have combined to make opening—and sustaining—a successful merchant business a difficult proposition. This difficulty did not arise overnight, and likewise, will not be solved quickly.

Nothing happens in business until someone sells something, and in order to sell something, a payment must be transacted. An entrepreneur may take months or even years to come up with the right market concept that provides value to paying customers. Then, when ready for the first sale, the new business owner discovers that the payment transaction process is quite complex and involves dealing with multiple vendors: banks, tech firms, intermediaries, and sales agents as well. Enter two market forces that have changed the game for the long tail of small business since 2009: the availability of mobile point-of-sale (mPOS) and emergence of the payments processor Square to simplify all this and make it financially feasible. Just how Square and others do this is the subject of this Mercator Advisory Group ForeSight report. Here we discuss and assess how mPOS not only has streamlined the payment transaction process for in-store and on-the-go merchants but also has opened up an expanding world of integrated business tools for business owners and operators alike. While the payment is still the critical path of the sales transaction, the new reality is that m-POS is really about more than just payments.

First, a definition: *Mobile point of sale, or mPOS*, is a system used by a business for the acceptance of in-person payments via a smartphone, tablet, or mobile card-reader device that depends on a Wi-Fi or cellular signal.

Additional devices may include a socket-connecting dongle for swiping or inserting a card and an array of supporting software. mPOS systems came into their own serving the very large segment of small, independent merchants needing a quick and cost-effective way to accept payment cards. These ubiquitous merchants discovered that obtaining a merchant account via an acquiring bank was not so fast and easy. This was true not only for in-store merchants but also for those dealing with online customers as well as for independent contractors and sole proprietors who worked on the road and at client locations. Medium-sized and large retailers, too, discovered that mPOS enabled them to take customer orders and payments at any location in stores, not just a traditional checkout counter. Merchants discovered expanded uses of mPOS for transactions with customers waiting in line, roaming the store, and in other remote locations, even on commercial aircraft in flight.

Mobile point of sale has proven to be highly adaptable to an endless variety of checkout settings and is an increasingly popular consumer payment method. But challenges similar to those at the traditional POS do occur, including payment process compliance, technology integration, and security concerns. Forward-thinking merchants and their payment providers are finding ways to surmount these hurdles and use mPOS to boost sales and productivity.

Mobile POS can breathe life into start-ups and sole proprietorships, which can then grow into small and medium-sized businesses (SMBs). Small businesses represent the engine of U.S. economic growth. Firms in the SMB class are typically defined as having less than 500 employees. According to the U.S. Small Business Administration's (SBA) 2016 Small Business Profile, there are 28.8 million SMBs in the United States. That represents 99.7% of all U.S. businesses. At least 10 million are customer-facing businesses such as retail, restaurants, leisure, and professional services, which typically need a way to accept and process payment card transactions. All small businesses, especially those in start-up mode, quickly discover the degree of difficulty in delivering a product or service to a limited customer market, absorbing operating expenses, and making a profit.

According to the most recent data from the U.S. Bureau of Labor Statistics, 220,000 establishments were started in the second quarter of 2014 and 205,000 closed. That's almost a 100% turnover rate, not great odds for those looking to start a business. For firms that do survive, the mechanics of managing credit and debit card payments process, albeit critical, is something owners want to spend as little time thinking about as possible. They need to devote their time to running their business.

When it first became operational, mPOS was more about the transaction. Now mPOS solutions have evolved to include not just managing the transactions but operating and managing the business. As discussed below, in addition to Square as the pioneer in mPOS, others have followed and offer multifunctional and integrated features that go far beyond the payment transaction.

mPOS Gains Wide Adoption and Becomes Mainstream

Right now, mPOS has found its way into the mainstream of merchants across a spectrum of business sizes and vertical markets, as shown in Figure 1. What started as a solution for a new merchant payment acceptance channel has evolved into a robust mobile technology platform that includes the attributes described below the illustration.

Related Concerns

If you find this piece of interest and would like to explore this issue further, possible proprietary project work could be done to examine questions like these:

What are consumer expectations surrounding mPOS? How will they affect your products and services?

What impact will the growth of mPOS have on your existing POS system? What integration factors need to be considered?

How secure is mPOS? What about accepting different payment types—cards, EMV, contactless?

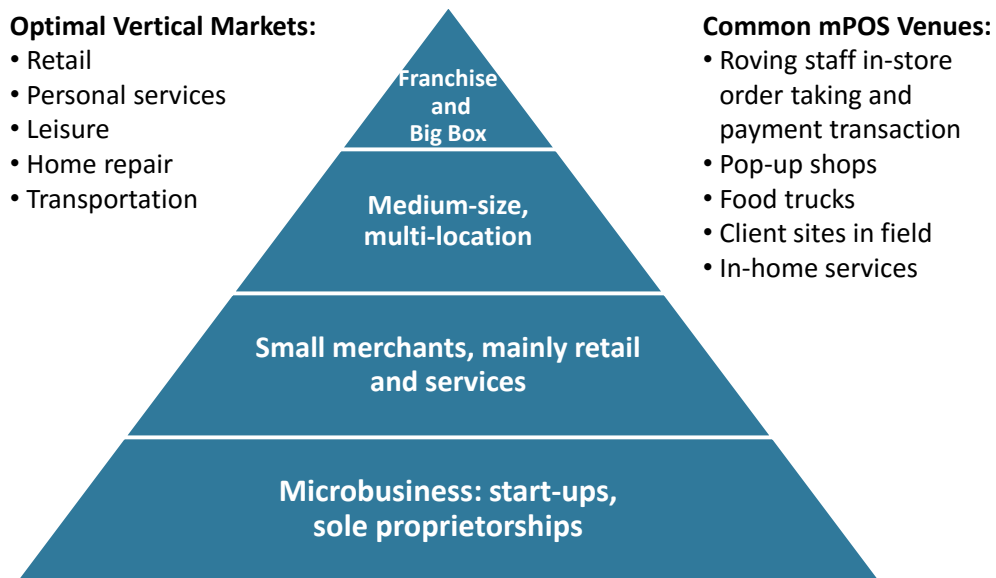
What's the extent and availability of value-added services? Which ones apply to your own vertical market?

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Figure 1: mPOS Is Not Just for Small Business Anymore



Source: Mercator Advisory Group

Payment Enablement. Prior to the emergence of m-POS, becoming eligible to accept credit and debit card payments was a difficult hurdle for microbusinesses and sole proprietors to overcome. Merchant banks were reluctant to approve accounts for undercapitalized and higher-risk businesses. Those that did pass the requirements faced long approval times and a sometimes complex fee structure. In effect, mPOS brings payment card processing to the masses by enabling the long tail of small business to get into the game.

Checkout Flexibility. Retail businesses of all shapes and sizes take advantage of the versatility of mPOS capabilities. They can accept payments wherever the customers are—in the merchant’s store, at the customer’s site, or somewhere in between. mPOS provides an excellent solution for tradespeople such as plumbers or landscapers and merchants on the go. Nontraditional retail venues such as pop-up stores, farmers markets, and food trucks are increasingly popular in the U.S. and with mPOS are no longer limited to cash-only transactions.

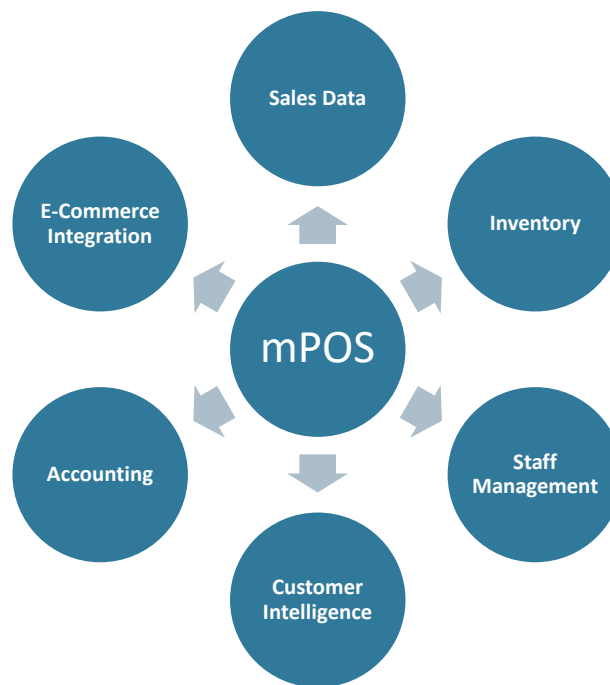
Consumer Friendliness. Customers expect to have their choice of payment methods, and they benefit from the ability of mPOS solutions to accept all credit and debit cards as would a regular POS at a checkout counter. Many quick service restaurants and coffee shops in high-traffic locations use mPOS devices as “line busters” so that customers in a long queue are met by staff that can take orders and payments via a mobile terminal.

Value-Added Services. mPOS systems do not mean a lack of business management and operational tools. Even sole proprietors need to understand their business by using payment transaction data as the basis for their analysis. Many mPOS systems provide the multifunction capabilities to see trends and obtain insight on sales, inventory, and customers’ buying habits (Figure 2). Business owners of any size company can have a data

dashboard and the power of analytics to better manage their firms. mPOS providers are learning as well that added-value services foster long-term client relationships.

Staff Productivity. The flexibility of mPOS allows those stores with large selling areas to have employees roam the floor and engage customers throughout, including at outdoor merchandise displays, all of which enhances staff productivity. Businesses can save by not having to purchase many large, fixed-location, hard-wired POS terminals that need staffing and often go unused at off-peak times. Some mPOS systems have a staff time management and scheduling system that saves administrative time and cost.

Figure 2: Leading mPOS Vendors’ and Apps’ Merchant Value-Added Services



Source: Mercator Advisory Group

A Square Peg in a Not So Square Hole

For many small business and microbusiness owners that previously could not accept payment cards, the 2009 emergence of Square as an mPOS provider turned out to be a game changer. Merchant account acceptance, transaction processing ease, and cost effectiveness were the key attributes that drew early adopters to Square. Payment card magnetic stripes could be swiped on the original Square reader, a small cube-shaped dongle that was connected to a smartphone audio jack. Square advanced its devices and supporting software in the ensuing years and attracted a large user base of small businesses across several vertical markets. The company claims to serve over 2 million business customers currently. As part of its late 2015 initial public offering (IPO) filing, Square stated that its small business market was composed of 21% retail, 17% services, and 15% food/beverage

businesses. Other strongly represented vertical markets include leisure, home repair, and transportation. Further, where its smallest sellers (under \$125,000 in annual payments processing) made up 92% of its base in 2011, in 2015 that number declined to 63%.

As Square's technology advanced, the devices became more software driven and able to function as part of a multifeature POS system. Square realized that these devices could also be utilized by businesses of all sizes and in need of additional value-added services. The company has significantly advanced its custom-designed devices for in-store transactions over recent years to accept EMV chip cards as well as contactless payments via Near Field Communication (NFC) technology for use with Android Pay, Apple Pay, and other mobile wallets. Square has used mPOS as a springboard not only to grow its customer base but also to develop a range of financial services aimed helping its mPOS users to grow *their* businesses and become more competitive.

mPOS on Steroids

Square introduced Square Point of Sale in 2010, which is like mPOS on steroids. Square now uses its mPOS platform to enable software-driven functionality to its business customers. Square Point of Sale is a software package, which with additional support from third-party apps, is compatible and installable on any Apple iOS mobile device or Android mobile device. It brings the world of business management tools to small businesses and many larger ones as well. The system features a user dashboard. This is a cloud-based reporting and analytics tool that can provide business sellers with current data to analyze their sales, inventory, customers, and employee performance. Additionally, Square Point of Sale provides customer engagement tools such as marketing offers and loyalty program support. Recently, the company launched Square for Retail, a vertical-specific app that includes more advanced sales, inventory, customer, and employee management tools displayed as an interactive dashboard on a laptop or tablet device.

mPOS Takes Off, and Competitors Respond

When undiscovered or nascent markets begin to reach takeoff speed and climb into their growth cycle, new entrants begin to appear and present competitive challenges to the early participants. Square had the mPOS market to itself for a while as the market's first major participant. Now many other firms are entering the market to stake their claim on the growing market volume. Certainly, the legacy merchant acquirers have taken notice and are responding. Most are providing mPOS services with partners and white-label solutions. An exception is First Data's Clover, which is a fast-growing division supporting the SMB space similarly to Square. Additionally there's a long list of payments industry players such as terminal makers, processors, payment facilitators, and fintechs that can deliver mPOS services. Let's take a look at some.

First Data's Clover Mobile Platform Blooms

When First Data acquired a Bay Area payments start-up called Clover in 2012, most industry watchers gave it scant notice. The start-up had launched a solution for smartphones and tablets to make mobile payments simpler, faster, and more secure. First Data took notice and evolved Clover with an mPOS strategy to deliver integrated

payments and business tools for SMBs. Clover launched its mPOS product, Clover Mobile in late 2014 as a tablet version of its larger Clover Station. The tablet was meant for a typical retail checkout venue. Then in 2016, Clover launched a mobile credit card reader, Clover Go, as a direct competitor to Square, the entrenched mPOS mainstay. Clover Go offers two EMV-compliant card readers that connect to a smartphone or tablet via a headphone jack or Bluetooth connection. In May 2017, First Data announced Clover Flex, a handheld mPOS device that can also be placed on a countertop and can also be integrated with other Clover devices. Clover's game plan focuses on a hardware-based platform supported by a multitude of software apps aimed at SMB owners and operators across a variety of vertical markets. The flywheel that has generated adoption by a growing number of business users is the Clover App Market. Over 300—and counting—Clover apps have been introduced by third-party developers attracted to a list of mPOS needs and solutions. First Data and its partner merchant banks bring to Clover hundreds of thousands of SMBs that have or need an mPOS platform. This remains one of Clover's key strengths as it competes in the mPOS market against Square and others.

Clover versus Square—Flip a Coin?

So how should a small or medium-sized business operator size up the differences between Clover and Square when choosing an mPOS solution? Both vendors now have generally comparable mPOS hardware devices. Given that each merchant business has its own unique position and circumstances, there are some key factors to consider when assessing the two competitors. For starters, the Clover system can only be obtained by going through First Data, its partner merchant banks (Bank of America, Citibank, PNC, and Wells Fargo), or an independent sales organization (ISO) and other intermediaries.

Obtaining a merchant account can be the bane of many start-ups and microbusinesses since they typically lack sufficient financial history or resources to qualify for a merchant account, or at least to get one quickly. In contrast, Square serves as a payments account aggregator, thereby taking on risk and chargeback responsibility. SMBs in effect get instant payment processing setup and support via Square. Given that Clover devices can be obtained through many of First Data's partners and resellers, pricing can be a maze of fee tables and service menus. With Square, there is relatively simplified pricing (other rate/fee plans as well) since it comes from one source. Standard Square pricing comes to 2.75% of total sales amount for swiped, inserted, or contactless payments, and 3.5% plus \$0.15 for manually entered transactions.

Businesses must determine their transaction types and payment channels in order to determine the least-cost provider. Both Clover and Square have built their mobile processing platforms around business tools and features that enhance SMBs' monitoring and managing of their business. Clover has its app market attracting developers with many vertical market specialties, many in the restaurant and hospitality space, as does Square. As with all technology solutions, it's not one size fits all, and merchants must read the fine print as they begin or expand their mPOS platforms.

PayPal Here Looks to Omnichannel

With its heft and heritage in the payments marketplace, PayPal Here provides mPOS processing and solutions to over 8 million merchants. PayPal Here's selection of mPOS hardware works for most Apple iOS and Android phones and tablets and is comparable to Clover and Square. While PayPal Here is not as full featured as the products of those two competitors, its strategy aims to provide an omnichannel platform for business sellers that already accept PayPal as an online payment channel and are looking to stay within an integrated PayPal ecosystem. Similar to Square, it offers a pay-as-you-go and more simplified processing fee schedule than legacy acquirers do. Unlike legacy acquirers, this includes instant set-up of accounts.

Both PayPal and Square are in the lending business since they each offer working capital loans to their business customers. While some bank loan officers may not consider some of these accounts to have the best risk profiles, PayPal and Square believe they know enough about their business customers to be able to make the right lending decisions and take advantage of another revenue stream. PayPal Here offers business customers a debit card for instant funding from transaction proceeds plus a 1% cashback feature. In contrast, Square charges merchants 1% for instant deposit of funds from transaction proceeds.

Role Reversal: Shopify Brings mPOS to E-Commerce Merchants

Most brick-and-mortar merchants have joined the trend to an omnichannel approach to e-commerce sales that has become obligatory to meet consumer demand. Now major e-commerce platform vendor Shopify intends to go against the grain and offer its own mPOS system to its online merchant sellers. The Ottawa-based company, which counts 400,000 merchants in its client base, has been offering a third-party mPOS device to 65,000 of those merchants that also have a storefront presence. With its new card reader device, which was designed in-house, Shopify can more easily and seamlessly integrate sought-after SMB business tools such as inventory management, customer sales data, and accounting functions all in one package.

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Shopify hopes to capture businesses that already have an omnichannel strategy as well as single-channel businesses that will eventually need to add another channel. Similar to Square, Shopify acts as a merchant payments processing aggregator and will open instant accounts with a simplified transaction rate plus a monthly fee. Shopify believes that its formidable penetration of the SMB e-commerce market will enable it to grab market share from Square and others. Right now Shopify is betting that the long tail of small merchants will gravitate to the allure of a fully integrated POS system for selling to consumers online, in-store, and on the road.

mPOS Market Attracts a Growing Field

Aside from the aforementioned mPOS providers, there is an increasing list of other vendors and suppliers that support this growing payment platform. Legacy acquirers such as Bank of America Merchant Services, Chase Paymentech, Global Payments, TSYS, Vantiv, Wells Fargo Merchant Services, and Worldpay provide mPOS through partners such as terminal makers Ingenico, Magtek, Verifone, and CardFlight. NCR Silver offers an iOS-based mPOS system with business tools, especially for retail, hospitality, and services for national franchises and other multiple-location merchants. An expansion of adoption of mPOS will be seen in pay-at-the-table applications to enhance payment card security as well as to increase wait-staff productivity and table turnover. An example is the new Clover Flex device launched to service this increasingly popular at-table venue. Another is TableSafe's Rail, a handheld device presented to diners at meal's end that is being upgraded to accept various payment types, including chip cards, QR codes, mobile NFC, and gift cards. Rail also enables patrons to split the check and submit feedback on their dining experience. A novel customer experience aspect of Rail's diner feedback feature is that any negative review generates an immediate text to the restaurant manager, who can then head off and appease any exiting unhappy customers, who might ordinarily be contemplating a negative dining review on Yelp.

Implications and Opportunities for mPOS Providers and Merchants

Not Just for Small Business. While originally developed for small businesses and microbusinesses, medium and large-sized merchants with spacious store space who adopted mPOS realized its potential for allowing sales staff to assist customers to check out anywhere in the store. Busy fast food restaurants and coffee shops discovered that staff could shorten lines of waiting customers by moving up the queue to take orders and payments.

Beyond Payments: Payment Transactions as the Springboard. Many providers are following the lead of Square, which learned early that the real value of mPOS to merchants was not just the payment transaction, but rather a variety of valuable business tools to run and manage the business. Basic features such as inventory, sales, and customer data will evolve into predictive analytics for merchandise ordering, targeted offers for in-store customers, and staff scheduling and planning.

Monetizing Payments Transaction Data. mPOS payments processing yields little or no margin, as evidenced by the fact that Square has yet to turn a profit. But the transactions alone yield a potential firehose stream of useful data. Processors can monetize that information by packaging or selling the output that provides valuable customer intelligence in order to cross-sell other services such as lending.

Business Tools as Differentiating Strategy. Most mPOS providers offer or sell value-added services as previously mentioned. It is the mix of services and how well they match the needs and solve the problems of customers that will determine their competitive success. Moving beyond commodity-type pricing of payment transaction processing opens opportunities to provide higher-margin services that can be offered to merchant customers such as business tools, lending, and payroll processing.

Vertical Market Focus Wins the Day. Specialization shows any merchant that the mPOS provider understands the business of that merchant's vertical market—how the merchant makes money, who the business's customers are, and how to maintain growth. A prime example is the way mPOS software developer Shopkeep manages its merchant base of restaurants, bars, and specialty retailers. Shopkeep provides the mPOS software and business tools on an iPad platform. It also offers payment transaction processing, more as a secondary service, sort of the reverse of the original Square business model. The key focus is the business and consultative services, which enable sustainable client partnerships and reduce merchant churn.

Strengthens Omnichannel Positioning. Synchronizing mPOS into an omnichannel strategy seems logical and easy enough, but it can be overlooked or underplayed, even by medium- and large-scale merchants. Small business and entrepreneurial start-ups made mPOS what it is today. Consumers purchasing any products and services now expect merchants to provide payment transaction acceptance no matter what the venue—away from the traditional checkout counter, such as in pop-up stores, on the road at job sites, or during in-home service calls.

Does mPOS Hardware Enable Stickier Merchant Relationships? Although the mPOS market is relatively young, there is a proliferation of card-reading devices, dongles, and mobile tablet stations produced by payment providers and a long list of third-party suppliers. Even though it is the software-driven apps that differentiate the mPOS providers, their hardware can enable stickier relationships with merchants who may not want to switch vendors in order to avoid spending more money on new devices.

Long-Term Impact of mPOS versus Wired POS. Mercator Advisory Group expects that mPOS systems will rapidly grow to comprise significant market share of all POS systems. Key issues to watch are the impact mPOS will have on legacy POS systems, the rate of mPOS device obsolescence, and the ability of multilocation merchants to upgrade entire systems as software revisions are introduced.



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