

Focus On Enterprise

Turning Smartphones Into Cash Registers

▶ Plug-in card readers are bringing new sales to small merchants

▶ "I want to make sure we look like we are a legitimate business"

Last year, Mark Pastore wanted to expand his cured meats business, **Boccalone**, beyond the exposed-brick confines of its store in San Francisco's Ferry Building. When he began trucking salamis and sausages to farmers markets around the Bay Area on weekends, accepting credit cards was a hassle that involved entering customers' numbers manually into his cell phone. So last October he started using Square, a matchbook-size credit-card reader that plugs into his iPhone and automates the entire process. "It's like a virtual cash register," says Pastore, noting that the outdoor operation helped put his four-year-old business over \$1 million in sales last year and may account for 10 percent of revenue in 2011.

Pastore is one of thousands of entrepreneurs using cheap, simple

payment devices made by **Square** and at least two other companies. Smartphone card readers are being used by an Austin (Tex.) veterinarian making house calls, a sidewalk artist selling books in New York's Washington Square Park, and heating and cooling technicians in rural Ohio, who accept swipes for thousands of dollars of repairs with no paperwork.

Payments made via smartphone credit-card readers—a technology that didn't exist a few years ago—will total \$11 billion this year, researcher Aite Group estimates. By 2015 such transactions could amount to \$55 billion, it says. "When smartphones came on the market, it became clear that there

was going to be an opportunity to connect remote salespeople with sales opportunities," says David Robertson, publisher of *The Nilson Report*, an industry publication.

Square, a Silicon Valley startup launched by **Twitter** co-founder Jack Dorsey in 2009, has helped fuel interest in mobile payments. It and similar products from **Intuit** and **Verifone** are giving entrepreneurs a range of options for turning phones into payment kiosks. For Intuit, what began as a technology aimed at tradespeople "has turned into much more of a mass market product," says Chris Hysten, general manager of the company's payments division. "It solves needs for small businesses anywhere."

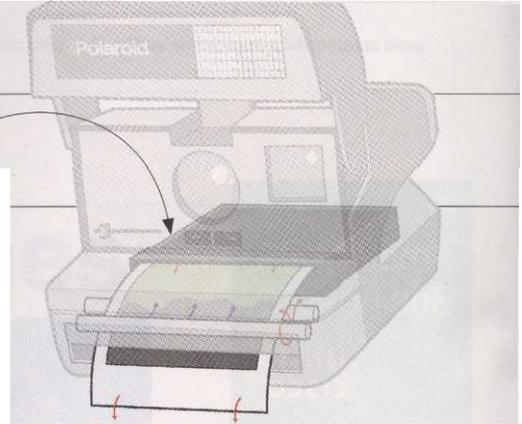
Most of the products give merchants a free or inexpensive app and a card reader that plugs into a handset. Customers swipe a card and sign the touchscreen with a finger or a stylus, then get an e-mail or a text with a receipt. The services cost merchants 15 to 20 percent per transaction plus 2 percent to 3 percent of the sales amount and, sometimes, a small monthly fee. After the payment is processed, money is deposited in the merchant's bank account.

Intuit offers its free GoPayment card swiper to the 4 million small businesses that already use its accounting software, QuickBooks. Square, which says it's adding some 60,000 merchants a month, sends boxes of its card readers to users who agree to talk up the service. Chief Executive Officer Dorsey expects this effort to encourage Square's adoption among food trucks, taxi drivers, and other entrepreneurs who, he says, "would benefit massively from Square."

Swiping a credit card on an iPhone is bound to turn off some mobile merchants, says Nick Holland, an analyst with technology researcher



When a film packet is ejected from an instant camera, rollers squeeze developing chemicals across the film and paper



Yankee Group. "When you have somebody whose core business is delivering pizza and they need a robust design, these aren't going to do the job," he says. Unlike devices dedicated to reading credit cards, smartphones can be used to download malicious software that could allow hackers to mine them for information, warns financial services researcher Javelin Strategy & Research. Companies that sell smartphone card readers say the risks are minimized by encryption software and other technologies ensuring that cardholder information is never stored on the phone. "We are maniacally focused on security," says Robbie Lopez, head of global payment software at **VeriFone**.

Some merchants are using the mobile options in their stores. After a power surge fried the card-processing terminal at **Remedy Coffee** in Oakland, Calif., owner Todd Spitzer discovered that a new one would cost \$7,000. So he opted for Square's free card reader, which he plugs into his iPad. Square charges him 15¢ per swipe and 2.75 percent of each transaction, vs. the 20¢ plus 3.5 percent and \$10 a month he was paying before. He's now using a second Square in an Airstream trailer he converted into a coffee truck that he parks outside the Berkeley Art Museum and other area attractions, and he'll have a third in a shop he's opening soon inside the museum. Spitzer hopes to triple Remedy's revenues this year, to about \$1.3 million.

Many small business owners say accepting cards gives them greater credibility. "I want to make sure we look like we are a legitimate business and not some vendor that's just going to be there for the moment," says Doug Ipock, owner of **Fusion Sports**, which sells athletic apparel from a truck at amateur lacrosse, soccer, and other sports tournaments in North Carolina. Since Ipock began accepting credit cards using Intuit's GoPayment service in addition to cash, he says more coaches and school athletic directors have made repeat orders by phone or via his website.

At least for now, merchants say, they also benefit from the cool factor. At 2 a.m., after last call in Portland, Ore., bar patrons in the hip Old Town neighborhood line up at **Big-Ass Sand-**

wiches, a food truck. Lately, customers have been as intrigued by the Square device used to swipe their credit cards as by the eclectic menu. Some even make return visits just to show friends, says Lisa Wood, who runs the truck with her husband, Brian. "It becomes this whole spectacle." —*Douglas MacMillan*

The bottom line Card readers that plug into smartphones let even the smallest businesses accept credit cards, at a cost of about 3 percent of sales.

Technology

An Analog Photo Fix For the Digital Age

► Austrian startup Impossible is on a mission to revive instant film

► "Companies pay millions to build that kind of consumer interest"

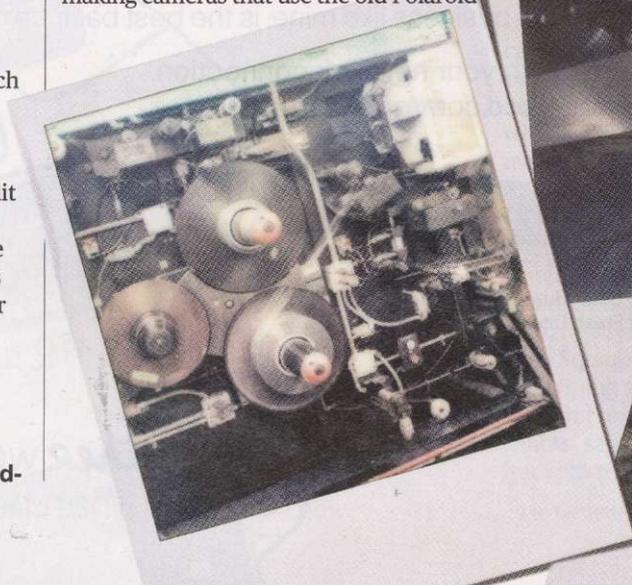
Under the tutelage of its creative director, Lady Gaga, instant-photo pioneer **Polaroid** has introduced a slew of futuristic products such as sunglasses that shoot video. One thing Polaroid doesn't offer is film for its vintage cameras. The company in 2008 sold that business to an Austrian startup called the **Impossible Project**.

Since then, Impossible has shown that instant film has a future, even in the Digital Age. The company has introduced new film and has opened stores in Vienna, New York, and Tokyo, sharply boosting sales and profits. This year Impossible expects to expand its film lineup. And with no one currently making cameras that use the old Polaroid

format, the company plans to launch its own instant model in 2012. Florian Kaps, one of three founders, says the company's success lies in preserving the soft, distorted colors of vintage Polaroid film. "Because of the digital revolution, people are starting to go in the opposite direction, toward retro analog products, and the fun is just beginning," Kaps says.

Polaroid's instant-film business started to fade to black in the mid-2000s. Sales declined nearly 25 percent annually for several years and suppliers of essential chemicals planned to exit the field because of environmental concerns and bleak revenue prospects. Just two days before the company was to shutter its last instant-film factory, in the Dutch city of Enschede, and destroy millions of dollars' worth of unique equipment, Kaps stepped in.

He teamed up with André Bosman, a manager at the factory, to offer \$3.1 million for Polaroid's machines, inventory of some 400,000 packs of film, and a 10-year lease on the facility. They brought Austrian entrepreneur Marwan Saba on board to help raise funds, and



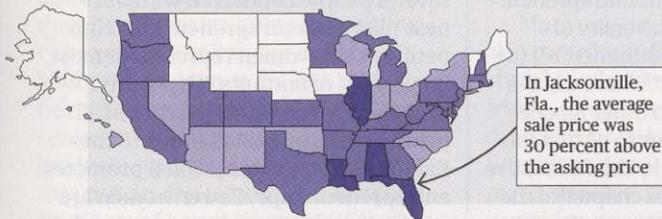
Acquisitions

When It's Time to Cash Out

Deals are bouncing back among buyers and sellers of Main Street businesses. Last year transactions climbed 3 percent, vs. a 28 percent drop in 2009. Prices, however, continued to fall. —*Nick Leiber*

Average sale price as a percentage of asking price, 2010

■ less than 85% ■ 85% to 95% ■ more than 95% □ No data



Where buyers pay the most for small businesses*

Metropolitan area	Median business sale price	% change from 2009
Salt Lake City	\$425,000	24%
Detroit	\$399,000	68%
Pittsburgh	\$350,000	-1%
Contra Costa, Calif.	\$230,000	0%
Indianapolis	\$230,000	-49%
New Jersey	\$225,000	11%
Washington, D.C.	\$215,000	21%
New York	\$210,000	19%
San Francisco	\$200,000	-25%
Philadelphia	\$200,000	-38%
Charlotte, N.C.	\$198,000	9%
Cincinnati	\$197,000	9%
Portland, Ore.	\$188,000	15%
Raleigh, N.C.	\$185,000	34%
Dallas	\$185,000	-1%

*METRO AREAS WITH AT LEAST 10 REPORTED TRANSACTIONS. DATA: PRIVATE COMPANY SALES FROM 2007 THROUGH 2010 REPORTED TO ONLINE MARKETPLACE BIZBUYSSELL.COM

the team quickly found a dozen backers willing to invest in the venture. Given Polaroid's loyal customer base, "it would have been pretty difficult to miss the opportunity," Saba says. "Companies pay millions to build that kind of consumer interest."

Problem was, four factories integral



Impossible has 36 workers at a Dutch plant that once housed 1,200

to the production of Polaroid's film had already closed. This was resolved by entering into a partnership with **Ilford** and other photographic-equipment companies to get components such as paper and coatings. A more serious challenge was replacing chemicals long used in Polaroid's formula (hence the name Impossible Project). Kaps and his team hired former Polaroid engineers to develop recipes that use readily available ingredients without sacrificing Polaroid's analog charm.

The old Polaroid factory in Enschede, a vast facility that once employed 1,200, gives the 36 Impossible staffers who work there plenty of room to run with their ideas. Impossible has already developed two sepia-toned films and an experimental color version. This year it plans to release an 8x10 format as well as a new color formula.

At Impossible's Manhattan store, an airy loft five stories above Chinatown's busy streets, instant-film devotees ride the rickety elevator to check out the wares. The store, which has the look and feel of a SoHo art gallery, offers film as well as old Polaroid cameras that the startup refurbishes. "We're buying cameras furiously," says Impossible America Vice-President David Bias. "I have about 10 guys scattered around the country scavenging them for me at flea markets and yard sales."

The company says it pulled in a profit of \$270,000 on revenues of \$4 million in 2010. This year Saba expects Impossible to triple revenues and quadruple profit, selling 2 million eight-frame packages that retail for about \$22. "There's a baseline potential for selling 10 million film packs [annually]," he says.

Kaps and his team have been able to turn a profit where Polaroid struggled because Impossible is so much smaller and its fixed costs are lower, says Chris Chute, a digital imaging analyst for researcher IDC. Polaroid's "production was coming out of these huge facilities, and once volume started to dip, the economies of scale worked against them," he says. Impossible's advantage is that "there are so many Polaroid cameras out there and the one thing that's missing is film."

Impossible isn't the only player in the market. Fujifilm has long made instant film and cameras, though its products aren't compatible with the classic Polaroid cameras. Fuji offers "the best image and best color reproduction in the photographic market," says Kayce Baker, the company's marketing director.

Polaroid, under new ownership since 2009, has also gotten back into instant film. Last April the company started reselling a Fuji instant camera and film packets under its own brand. Polaroid President Scott W. Hardy says he was impressed with Fuji's global distribution

and image quality. The former pioneer is working on a camera that marries digital and instant photography, as well as filters that let customers choose the look of their instant products. "There's definitely a need for the artsy, surprise-me-with-how-it-develops film," Hardy says. "But for the mass market... there's a much higher standard in terms of the photographic quality."

Kaps isn't worried about the competition. He predicts that Impossible will prosper by catering to shutterbugs who love the imperfections of the original Polaroid. "The big advantage Fuji once had—which is the big disadvantage now—is that it's a far better quality product, so it almost looks like digital," he says. As for Polaroid's efforts to resell Fuji cameras and film, "It's as if Coca-Cola no longer had the recipe for its drink and just decided to put Pepsi into their bottles." —*Caroline Winter*

The bottom line After buying Polaroid's last film factory, the Impossible Project is making a profit where the instant-photo pioneer saw little future.

Competitions

Business Plan Contests: Where Are the Women?

► Many groups are trying to increase female participation

► "You have to be ready to toot your own horn"

Something bothered Jane Pak when she served as a judge for a regional competition of the Global Student Entrepreneur Awards (GSEA) at the University of Southern California last summer: All the contestants were male. "Where are the girls?" she asked the two other female judges. "It was so obvious to us that this was a problem," says Pak, chief executive officer of the Los Angeles chapter of the National Association of Women Business Owners. "No one else seemed to notice."

Women often go missing from the 100-plus entrepreneurial competitions

held annually in the U.S., where winners take home prizes ranging from cash and trophies to contacts that can lead to opportunities. In the GSEA's 2010 contest, just 25 of the 145 competitors were women and the winners and runners-up were all male. Since 2007 only 13 percent of the event's 117 finalists have been female. The scant presence of women in such events "makes me want to put my head down and weep," says J. Janelle Shubert, director of the Center for Women's Leadership at Babson College.

While no formal statistics are kept, several people connected with business plan and entrepreneurship competitions say women represent at most 20 percent of entrants. That's even though they launch 40 percent of all private companies, according to the Kauffman Foundation, which promotes entrepreneurship. "Fewer women are still finding their way into spearheading their own idea," says Sara Gragnolati, 33, the first solo woman to win the top prize in Babson's MBA business





plan contest, launched more than two decades ago. She took home \$20,000 for her company, **Cocomama Foods**, which sells gluten-free breakfast cereals. "I felt kind of honored," Gragnolati says, "but I found it surprising and sad" that it had taken so long for a woman to win.

Experts in entrepreneurship—both women and men—say a lack of confidence and bluster, an aversion to risk, and a continued scarcity of women in engineering programs may explain the shortage. Pak believes the problem starts in childhood. "Even the most progressive parents don't assume their daughters are going to be primary breadwinners," she says. Babson's Shubert says women are less likely to belong to organizations that sponsor contests. Although more than half of graduate students are female, women "are not driving to positions of influence," says Sharon Vosmek, CEO of Astia, a nonprofit that supports women-owned companies. "You have to be ready to toot your own horn in a way



that we're not seeing women doing."

More practical considerations may also contribute. Elif Hanna, an MBA student at the University of California, Irvine, was the only mother to enter her school's annual business plan competition. "It was very hard for me to participate," she says. "Most of the meetings were after seven." Rejected in the first round, Hanna started an online wedding invitations company, funding it herself.

Efforts are under way to boost par-

ticipation by women. **Ernst & Young** set up its annual Entrepreneurial Winning Women contest in 2008 to strengthen promising female-led businesses by connecting them with potential partners and investors. This year, Kauffman Foundation and Astia are sponsoring the first Women in Science and Engineering Business Idea Competition.

Tech networking group Women 2.0 says its annual pitchfest—in which teams presenting ideas to potential investors must include at least one woman—is attracting more venture capitalists. A 2010 participant pitched technology that lets immigrants send money home via mobile phones, says Women 2.0 CEO Shaherose Charania. It's "something that a Sand Hill Road [VC] guy is never going to use," she says, "but it solves a real problem instead of just making rich people's lives more cushy."

—Karen E. Klein

The bottom line Few women entrepreneurs participate in business plan contests. Now many groups are trying to boost their numbers.

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