



Getting on the Menu

John Stewart

The pay-at-table market shows signs of moving from pilot to rollout. But with restaurants taking a hit from a slowing economy, restaurateurs are looking more critically at proponents' claims that the technology chops costs and speeds up table turns.

Sometimes it takes a little R&R to find the next big business idea. Just ask Robert B. Ensminger, who took his wife on a European vacation last year and found what he thinks might just be the future of his company. "Every restaurant we ate in that was above a McDonald's brought us an Ingenico," he recalls, referring to a point-of-sale payment device. "I said, 'When I get back, I'm going to get one of these on every table.'"

Ensminger, who is president of Alpine Payment Systems, a Vancouver, Wash.-based independent sales organization, launched a pay-at-table product based on wireless Ingenico equipment four months ago, and now has most of the 100 restaurants Alpine processes payments for on it. "It's taken us quite some time to make this product work with our restaurant merchants," he says. "We've invested quite a bit in it."

Why such a substantial investment of time and resources in a concept that moves the restaurant's payment device out of the kitchen or workstation and on to the customer's table?

For one thing, it looks like some casual and fine-dining restaurants

may be ready to invest in rollouts of the technology after several years of experimentation, though some experts warn that readiness may be tempered somewhat by a recent margin squeeze in the restaurant economy. VeriFone Holdings Inc., which splits the market into two segments—the 100 biggest chains in one group, distributors and mom-and-pop eateries in the other—has seen two chains roll out with its devices recently. Carrabba's Italian Grill deployed terminals for curbside service and, more recently, Claim Jumper Restaurants is installing devices in all of its 45 locations.

"Within the last three to six months, we've seen more traction than we've ever seen in that top 100 market," says Bulent Ozayaz, general manager and vice president for wireless solutions in North America for San Jose, Calif.-based VeriFone, which has been selling a pay-at-table device in the U.S. for the past 18 months. Ozayaz says "several other" chains have signed agreements to move from tests to rollouts, though he can't name them yet.

"We're seeing the end of the experimental phase," says Scott Goldthwaite, vice president of global

solutions at Scottsdale, Ariz.-based terminal maker Hypercom Corp. "In the next 12 months we'll see the first round of early adopters do chainwide deployments."

Double Whammy

For Ensminger and other processing executives looking at this technology, the market need is acute. For customers, it means more secure transactions, since the card stays with the diner. That's important in an industry that accounts for a lot of card-data theft. In 2004, the latest year for which numbers are available, some 70% of all card skimming incidents happened in restaurants, according to Mercator Advisory Group. "Restaurants are the only place where you hand someone your card and they walk away with it," says Ken Chaisson, vice president of information technology at Legal Sea Foods Inc., which has pay-at-table in 20 of its 34 restaurants and has plans to get it into the other 14.

Eateries benefit from quicker table turn, an effect that gets magnified with chains. "If you've got 1,000 tables, and [pay-at-table] is quicker by three minutes, that's 3,000 minutes gained" that can be used to serve other diners, says Don Smith, president and chief executive of International Merchant Services Inc. (IMS), a Westmont, Ill.-based ISO that's planning a pay-at-table test involving multiple terminal vendors and three restaurant companies.

But the really big payoff for restaurants could lie in reduced acceptance costs. Most of the wireless devices in this market have built-in PIN pads for debit cards. The key is getting customers to switch from credit cards—which most consumers and all business diners have been accustomed to using—to PIN debit, which carries far lower interchange rates. Ensminger estimates restaurant companies can cut processing costs by as much as half by converting customers to PIN debit.

The move from credit cards, he argues, may not be all that hard. “Most of America is people who don’t want to finance their mashed potatoes,” he says. “If they had a choice of using a debit card versus a credit card, they would use it.” And restaurants can also gain by avoiding interchange downgrades triggered when tip amounts exceed the sums entered for pre-authorization. The entire transaction, tip and all, happens at once when the diner swipes his card. Without the preauthorization step, “we’ve taken a two-transaction transaction down to a one-transaction transaction,” says Hypercom’s Goldthwaite.

As for ISOs, pay-at-table presents an opportunity to sell terminals into a virgin market. At the casual dining level and above, most restaurants have not installed PIN-capable devices. This stands in stark contrast to Europe, where the introduction of so-called chip-and-PIN standards on credit cards forced restaurateurs to bring the terminal out to the table. A market with a need for terminals can be more profitable than a replacement market, says Ensminger. “In the past, we’d try to

sell equipment to people who already had equipment,” he says.

Still, for all the enthusiasm about the pay-at-table business, not all industry executives and analysts are sold on it yet. One reason is that economic conditions for restaurants have soured in recent months. Revenues for sit-down restaurants open at least 16 months dropped 1.5% in the first seven months of this year compared to the same period in 2007, according to Knapp-Track, which monitors business at some 10,000 outlets.

of pay-at-table,” says Peabody. For another, drooping profits are forcing restaurant executives to take a sharper pencil to technology projects in an industry that has always spent sparingly on IT. Terminal makers like VeriFone are feeling some of the blowback already. Restaurant companies “cannot decrease their food costs, but they can decrease labor and technology costs,” notes Ozayaz.

The result? With the wireless devices designed for pay-at-table running about \$1,000 each, processors



Pay-at-table in action. Can eateries use it to cut acceptance costs and turn tables faster?

Photo: VeriFone

Rollouts may be stalled for a while. George Peabody, director of the emerging technologies advisory service at Maynard, Mass.-based Mercator Advisory Group, says terminal shipments into this segment are likely to be 20,000 this year, little changed from the total in 2007. With rising food and other costs added to a slowdown in the larger economy, restaurateurs are seeing margins melt. “When the economy catches a cold, the casual dining industry catches pneumonia,” says Peabody in an e-mail message to *Digital Transactions*.

That’s a double whammy for pay-at-table. For one thing, the casual-dining sector is “the natural domain

and terminal makers have to work harder to make the case for return on investment from table turns and lower card-acceptance costs. Restaurant finance officers “just study ROI like there’s no tomorrow,” says Ozayaz.

‘Prove It to Me’

That’s put a freeze on sales to at least some eateries. Terminal manufacturers like ExaDigm Inc. are seeing better prospects in two related market segments, pay-at-door (for deliveries to homes) and pay-at-seat (for concession sales at stadiums). Pay-at-table “hasn’t taken off to the point where we’re seeing resounding success,”

says Scott Holt, senior vice president of sales and marketing for Santa Ana, Calif.-based ExaDigm. "On the flip side, pay-at-door and pay-at-seat have increased exponentially."

But Ozayaz and others argue the ROI case can be made, even if the requirements are more rigorous now than they were a few months ago. "Finance officers are looking at our solution as a way to cut costs," he says. "The solution will pay for itself in a period of time." While many restaurants are cutting capital expenditures, Ozayaz sees that as a "short-term negative," with some companies looking to finance the technology with borrowed funds.

With those sharp-eyed finance officers in mind, IMS's Smith is launching a test he figures will either prove or disprove the case for pay-at-table. The ISO has lined up a national chain, a regional chain, and a small independent

restaurant to try out the technology on devices from three vendors. "I want real restaurants to tell me what are the benefits and what are the pitfalls," he says. The test will check out issues such as reporting, strength of signals through walls, and speed of table turn. Since the devices are standalone terminals, at the restaurants' request, the test will not determine how well they link to restaurant-management software.

By next spring, Smith expects to have some solid results. "I'm most interested in knowing the true numbers, what are the savings, what are the benefits," says Smith. "I like to go into any situation like this with a 'prove-it-to-me' attitude." He's not tipping the scales, but, he says, "I think the pros will outweigh the cons."

Some chains have already determined that. Chaisson of Boston-based Legal Sea Foods, which deployed its first device in May 2006, is sold on

pay-at-table. That's even though the company's terminals don't accept PIN-based debit transactions. "We'll look at adding PIN debit later on," he says.

Nor will Chaisson discuss return-on-investment calculations. "We're a private company," he explains. For now, it's enough that customers have cottoned to the technology, which allows diners to leave the restaurant without having to wait on a server and even calculates tips for them. "We're seeing much more of an adoption rate," he notes. "We're in the high 90th percentile of guests who accept it and like it."

Not that the chain wouldn't like to see lower transaction costs, given that the technology makes payments more secure. Says Chaisson: "I think we pay rates that are too high. We're pushing our credit card processor [for lower rates] because the card never leaves the guest's hands." **DT**

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