

A New Meaning to “Eat and Run”? Restaurants and Mobile Payments

By [Jaymee T. Castrillo](#) on February 22nd, 2012

Many mobile payment systems tailored for restaurants and other food vendors were introduced in 2011. Restaurant-industry insiders say 2012 will be the year of widespread adoption – and possibly a shakeout. A brief overview of the main contenders and considerations follows:

- **The Rail™**: This system was introduced last month by Viableware, which describes it as an innovative pay-at-the-table system that maintains the traditional bill folder look that diners are used to seeing. When the “bill folder” is opened, a digital touchscreen summarizes the bill and gives the consumer various payment options, including “self-swiping” a mag-stripe credit card, or using an NFC-enabled device, at the table. This system has obvious security advantages for the patron, as well as giving the restaurateur a new platform for customized communication with the patron, including advertising, surveys, etc. On the other hand, the system, while well-suited for family dining or fine dining, may not work well with other formats, such as food trucks, that generally do not involve payment at a table using a bill folder.
- **Card Case**: In this system, introduced by Square Inc., a patron arrives at an establishment and provides her name to the sales associate at the POS. The patron’s smartphone signals its presence to the POS. The sales associate locates the customer’s name and photo on a screen at the POS. Card Case then automatically charges the purchase to a credit card linked to the patron’s smartphone. While applicable to a broader range of establishments than the Rail™, Card Case would require restaurateurs to invest terminal upgrades and would not appear to provide a platform for customized communications.
- **Tabbedout**: Introduced by ATX Innovation, Tabbedout allows the patron to open a tab when visiting a participating restaurant or bar. The patron then shares her individual code with her waiter or bartender, and any item she purchases is then automatically added to her “tab”. The patron pay using the credit card linked to the Tabbedout application, eliminating the need to wait for the bill. Tabbedout would appear to have pros and cons similar to those of Card Case.
- **Square**: Square Inc.’s basic offering is already well known . It is a mobile card reader, which permits an establishment to use smartphones as mobile POSs. An unscientific survey of finer metropolitan food trucks indicates that this system is already in use at the more informal end of the dining spectrum. Whether it will find acceptance at the other end of the spectrum remains to be seen.
- **Chain-Specific Apps**: Many chain-restaurant websites (e.g., those of Domino’s Pizza, Pizza Hut, Starbucks, etc) offer apps that permit the patron to call up menus, locations and nutritional data, as well as to order and pay on-line. A key advantage of these apps from the perspective of the restaurateurs – and a key disadvantage from the patron’s perspective – is that each only works for a single chain.



- **Pago:** Currently being tested in California, the Pago system permits the patron to call up the menus of many restaurants (and the catalogues of other vendors) and order and pay on-line.

Also, VeriFone Systems Inc. and Micros Systems Inc. are each working on an NFC communication service for restaurants. VeriFone claims that, in addition to allowing smartphone payments, this new technology will help restaurants automate and integrate order-taking, the communication of orders to the kitchen, inventory-control, reporting and coupon-redemption. However, the details of these systems have yet to be made public.

With so many contenders, there may be a shakeout in the near- or medium-term. On the other hand, different systems may gain acceptance at different points along the spectrum from food trucks to fine dining.

Cutting across all these systems are certain key legal and payment network-rules issues. Perhaps the most important, because it also impacts branding and the customer experience, is data security. As is well known, Heartland Payments System, a payments processor that focuses on the hospitality industry, experienced a major data breach in 2008. Also, concerns regarding mobile payment security have arisen in connection with certain vulnerabilities that recently led Google to suspend temporarily the prepaid functionality in the Google Wallet, an NFC-based solution.

Simply by virtue of accepting traditional credit card payments, restaurateurs are subject to extensive payment-network rules regarding the security of credit card data, as well as – usually rigorous — contractual obligations to their payment processors. (Of particular interest in this regard is the pending lawsuit brought by Cisero's Ristorante and Nightclub, which is located in Park City, Utah, against Elavon Inc., which is the number two hospitality processor in the United States, and its parent U.S. Bancorp. Cisero's is challenging their assessment of funds from a Cisero's account after Visa and MasterCard levied fines for violations of Payment Card Industry data-security requirements.) Additional obligations may apply in connection with the acceptance of mobile payments. Similarly, restaurateurs that accept mobile payments may subject themselves to additional obligations regarding the use and disclosure of data they obtain.

Another key issue is whether accepting mobile payments will cost the restaurateur materially more in interchange than accepting traditional credit card payments, and whether the likely sales lift justifies the added expense. This issue will need to be resolved establishment by establishment, taking into account factors such as the average ticket size and the existing and likely future mix of tender types.

As the foregoing indicates, this is a time of rapid transition in the technology and economics of restaurant payments. We will report further on this transition as events warrant.

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