

(L TO R) CHRISTOPHER KRAMER, VP OF CUSTOMER SERVICE; AARON HAMP, PRESIDENT; AND TED KRAMER, VP OF SALES AND MARKETING FOR POS OF MICHIGAN.



(Re)Birth Of A POS VAR

In Michigan's Lower Peninsula, an unlikely trio rewrites the definition of a POS VAR, grows a new business, and gets ready to go golfing.

BY MATT PILLAR

Ted Kramer is conflicted. On one hand, the 62-year-old veteran reseller is ready to hand over his stack of business cards and head south with a set of golf clubs. Kramer, VP of sales and marketing at start-up POS of Michigan, has been selling POS equipment throughout Michigan's Lower Peninsula since 1970. In the hardscrabble economy around Flint, Kramer has been earning his pennies and battle scars the hard way for 42 years.

On the other hand, Kramer has never been more excited about his line card. Forty years ago he was lugging 150-pound mechanical cash registers door-to-door. He admits that back then he thought he'd never see PCs running cash registers, but now he chomps at the bit to show off his company's wares, which include

Photos by Jeffrey Huyck

POS OF MICHIGAN

2012 PROJECTED REVENUE GROWTH RATE: 40%

EMPLOYEES: 5

(810) 422-5598

WWW.POSMICH.COM

VERTICALS: HOSPITALITY, SPECIALTY RETAIL

VENDORS: DINERWARE, HARBORTOUCH, I.N.C. SYSTEMS, SUNDROP MOBILE, TABBED OUT, UNYPOS MFG, VIGILIX

DISTRIBUTOR: BLUESTAR

applications for online ordering and mobile device-based loyalty programs. Pretty neat tricks for a self-described old dog.

Further complicating Kramer's internal conflict is the fact that his entrepreneurial spirit is being nurtured by his current circumstances. Since 1991, Kramer had been running his own hospitality technology and services company, IBS Consulting. Three years ago he met 34-year-old Aaron Hamp, founder of an IT/ATV managed services company called I.N.C. Systems. Hamp was working on a PCI DSS (payment card industry data security standard)-compliant network project for one of Kramer's friends, a nine-site hospitality establishment in southern Michigan. When the two engaged in a conversation about their businesses, the markets they served, and the growth opportunities they saw, there was no denying the synergy. Hamp was bowled over by Kramer's sales savvy. Kramer was wowed by Hamp's technical proficiency. All they needed was an operations guy, and oh, the places they could go. Enter Ted's brother Christopher Kramer, 16 years Ted's junior, now VP of customer service at the start-up and an industry veteran in his own right. Before POS of Michigan, Christopher Kramer spent 25 years honing his hospitality technology chops with management and director-level positions at Pinnacle Hospitality, CC Productions, and Great Lakes Data Systems.

Like many great start-ups, POS of Michigan fell into

place informally when this triumvirate of hospitality and tech professionals found synergy over drinks at a bar and began sketching out plans on the back of a napkin. Now, with little more than a year under its belt, POS of Michigan projects 40% growth in 2012.

Back to Kramer and his conflict. Fortunately for Ted, younger brother Christopher and Hamp share both his resolve for success and the desire to see him off. Ted, the consummate salesman, has succeeded in convincing his business partners that at least one motive for the company's immediate and sustained success should rightly be to fund his retirement. To that end, the trio has focused a fair amount of energy on developing a business plan that would foster recurring revenue opportunities. If it can hit its goal to earn 40% of its gross sales from recurring revenue sources, team POS of Michigan figures it can soften the blow of the departure of a tenured salesman, create sustainability for the company, and multiply its business valuation by a factor of 10. The effort started with product selection.

New Team, New Players, New POS Product Line

As previously noted, the market opportunity created by PCI DSS requirements brought Hamp and the Kramers together. The two- to three-station POS customers that POS of Michigan targets are largely ignorant of PCI DSS; that is to say that they may have heard the acronym, but they're not too sure what it means to their business. Hamp and the Kramers believed this created an opportunity for a VAR with the right expertise to offer POS solutions that had PCI requirements "baked in," from the payment terminal to the merchant side of the network. Hamp's expertise building secure IT infrastructures at I.N.C. would be the cornerstone of the PCI pitch, along with an optional service level agreement that includes SonicWALL VPN (virtual private network) and firewall hardware (the VAR employs two SonicWALL-certified network engineers). Now the company had to select the mix of vendor partners that would both bolster its secure systems angle and help create recurring revenue opportunities.

"We've developed an ASP, or 'active support program' approach," says Christopher Kramer. "We effectively offer a host of services and applications for a monthly fee, and we're building that out across our service offerings." Kramer contends that on the whole, the industry is moving away from project-based, reactive, and break-fix services to proactive, full-service solutions that feature value-adds. "We close more sales by demonstrating how our solution set prevents downtime and, as a result, saves our customers money. Then we price those solutions in a manner that creates recurring revenue," he says. While most VARs are familiar with a recurring revenue model as it relates to payment processing, few have taken the concept as far as POS of Michigan. The VAR currently offers the following under its ASP model, all of which result in incremental recurring monthly revenue:

- A mobile loyalty application from Sundrop Mobile,

"Our customers could buy hardware and software online at half the price, but it won't come with month-to-month peace of mind, service, and expertise."

TED KRAMER, POS OF MICHIGAN



which pays POS of Michigan a percentage of its \$99 per-site monthly fee, as well as commission on add-on sales such as its text messaging service.

- An online ordering application through Dinerware, which also pays a percentage of the monthly per-location cost.
- A subscription-based remote monitoring service from Vigilix, which enables secure remote access to IT equipment, monitoring of hardware for proactive maintenance, and backup services in a PCI-compliant environment. "Offering this service is a differentiator," says Ted Kramer. "Our customers could buy hardware and software online at half the price, but it won't come with month-to-month peace of mind, service, and expertise."
- Payment processing fees through Harbortouch, First Data, and Mercury Payment Systems, all of which offer PCI-certified solutions that complement the comprehensive PCI DSS pitch at POS of Michigan.

The company is also exploring an opportunity to offer POS as a service through Dinerware, whereby POS of Michigan would rent equipment and software to its customers for a monthly fee. "This is the new way to do business," explains Hamp. "The value of our business will grow more quickly and more substantially via the recurring revenue model than if we were solely project-based." Hamp also points to the business efficiency enabled by the recurring revenue model. "It's far easier to manage the finances when monthly revenue is predictable. There are no peaks and valleys of income and expense, which enables us to plan better and make smarter decisions." The younger Kramer adds that the more predictable and stable the company's revenue stream becomes, the better he and Hamp will be able to plan for growth after Ted's retirement. "We'll be in a position to hire more people and become a bigger part of our community, which are both important goals for POS of Michigan," he says. Demonstrating that commitment, the company currently purchases 90% of its hardware from local manufacturer UnyPOS Manufacturing and leverages a local funding company called AZURA.

New Products Ease Integration, Reduce Service Calls

In addition to PCI compliance, POS of Michigan chose

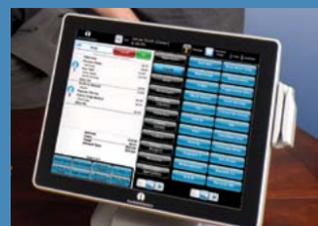
Dinerware and Harbortouch because of their open architectures, which enabled the integration of third-party products and applications such as Sundrop Mobile. Hamp acknowledges that with the proliferation of smartphones and other mobile devices, he could make a full-time job of reviewing new applications for hospitality and specialty retail. While he and the Kramers are careful about vetting the apps they choose to sell, they're confident that when they see a good opportunity it will integrate smoothly with their chosen platforms. The younger Kramer says the ease of implementation he's experienced with Harbortouch and Dinerware have significantly reduced the VAR's overhead. "From loading the software to training customers and their associates, these products are superior to what I've used in the past," he says. "We're experiencing at least 50% fewer postinstallation support calls than what any of us were used to."

Paving The Way For New Vertical Growth

Based on the pedigree of its founders (the senior Kramer has POS and liquor management wins at the Palace of Auburn Hills, the Fox Theater, Joe Louis Arena, and the Rogers Centre [Toronto SkyDome] under his belt, including installation of 16 miles of liquor tubing at the Fox Theater and the Rogers Centre combined), POS of Michigan has established a venerable portfolio of hospitality establishments. With the turnkey software, hardware, and merchant services solution from Harbortouch at its disposal, the company is now expanding into specialty retail. Party and liquor stores are its initial low-hanging fruit in that space, and Ted Kramer remains conflicted about what excites him more — the lure of a southern golf course or the "salesman's high" that comes with closing deals with new products in new verticals. In the near-term, the trio is committed to the business. Every Wednesday Ted, Christopher, and Aaron spend the entire morning together, reviewing successes and failures, learning from their mistakes, and applying that knowledge to their future plans. "Our formula works not in spite of our differences — age being not the least of them — but because we each bring a different perspective and different expertise to the table," Hamp concludes. For now, it appears as though Ted Kramer will have to save his greens fees for another day. ●

Turn To Vendor Partners For Leads, Recurring Payment Revenue

When POS of Michigan engages a new prospect, chances are good it will be pitching Harbortouch (previously United Bank Card) for POS and



POS OF MICHIGAN LEVERAGES HARBORTOUCH'S LEAD AND RESIDUAL PROGRAM TO INCREASE ITS MONTHLY SALES REVENUE.

payment processing. The VAR makes a higher profit and bonuses on sales of Harbortouch, whether it be payment processing with Dinerware or the Harbortouch POS solution, than it does on that of any other POS/payment processing provider, and according to

POS of Michigan VP of Sales & Marketing Ted Kramer, the support it receives from Harbortouch is beyond compare.

"Joe Froelich, our Harbortouch relationship manager, is a tremendous asset to the business," says Kramer. "He serves us 8 to 10 solid prequalified leads per month, which goes a long way toward reducing the volume of cold-calling we do." The vendor also provides installation and maintenance assistance, easing the VAR's technical and service overhead burden. These factors play into the fact that five out of six deals POS of Michigan signs include Harbortouch products and services. The VAR considers its relationship with the vendor instrumental in its goal to grow residual revenue from five figures per year to five figures per month, which it's well on its way to doing.

www.harbortouch.com