

# Cinderella Story

Launched by a 19-year-old with \$1,000 in her pocket,  
Velocity Merchant Services is the stuff of dreams

By John Manasso

**D**ema Barakat says she's a very curious person. "I like to find out about businesses and how people got started," she says.

So as a 19-year-old who had done some telemarketing for Sears and had worked for a few other companies, including a credit card processor, while she took classes at a junior college, she decided to give her own company a try. Borrowing \$1,000 from her father and working in the basement of her parents' home, she founded Velocity Merchant Services (VMS).

Today, VMS has 70 employees housed in its recently purchased 30,000-square-foot office building in Downers Grove Illinois. By the end of the calendar year, the company hopes to have 120 employees on its rolls. Its goal is to process 1,000 merchant applications per month—doubling its current number.

"I think the first processor that I made a long-term commitment with looked at me and said, 'OK, she's coming out to New York to get a good deal. Is she serious?'" says Barakat, who is now 35. "Basically, they took a chance on me and I took a chance on them."

"I think I did surprise them," she continues. "I knew we had a good plan. And it was tough."

VMS's modest start and rapid growth is the story of both a dynamic and somewhat old-fashioned family business, but one with big dreams. Barakat's mother Kout does accounting, her brother Hafez is vice president, and her cousin works in human resources. Three years ago, she married the person she hired in 2003 to be CEO, Danoush Khairkhah.

"If you work for a family company, you have more invested in it," says Hafez Barakat, who left a job in the restaurant industry as a general manager in 2005 to join VMS. "If we fail, the whole family



## Velocity Merchant Services

Downers Grove, IL

Founded: 1998

Portfolio size: 6,000 merchant accounts

Transaction volume: \$200 million annually

fails. If you work for another company, you can move on if it fails. If this fails, your mom has a vested interest, your sister, your brother-in-law. Everyone eats off it. It's a lot more difficult."

## Building Merchants for Life

That family-oriented mentality carries over into how VMS deals with its clients as well its employees. Many of VMS's merchants are mom-and-pop merchants and startups. VMS tries to cater to as many of their needs as possible—whether it's developing websites, printing business cards and letterhead, handling gift cards for merchants like hair salons, and even offering a lending program for merchants. VMS offers a mobile application as well.

"We learned throughout the years that merchants are ordinary people and they have needs," says Khairkhah, who was the company's 14th employee when Barakat hired him out of the MBA program at the University of Texas—Dallas to provide structure that would complement her expertise in sales. "What we try to do is

meet their demands with a solution. If you look on our site, you'll notice that we try to accomplish this with our value-added services. We try to differentiate ourselves, create a 'stickiness factor' for our company."

Having started out in sales herself, Barakat understands her reps' trials and tribulations. As a result, she has tried to create a work environment where employees want to stay and remain productive. Her lucrative incentives have kept some reps at the company for seven and eight years and put their salaries "in the six-figure range."

The company also offers a warm, hospitable physical space. "We really did top-of-the-line renovations," Barakat says. "When you are on the phones all day, and this is your job, work becomes your home away from home. A lot of the vendors or people we do business with, the first thing they say when they come into our office is, 'There's this energy that you get when you walk into VMS,' and I think that energy is what really drives this company—the idea of warmth and energy."

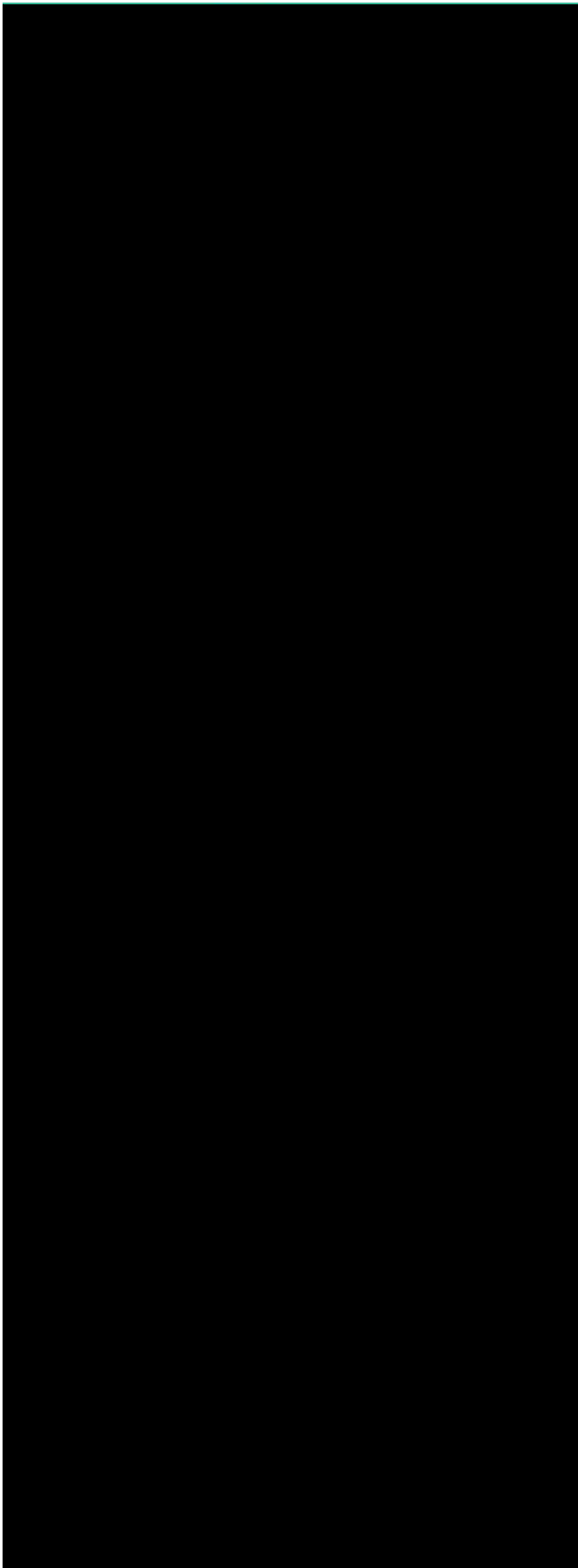
VMS offers more than a warm-and-fuzzy environment to help retain its employees. As part of its aggressive growth strategy, the company has recruited at local colleges. Khairkhah says the company's compensation package is "bar none" better than all of its competitors. Khairkhah says typical VMS reps can earn from \$48,000 to \$90,000.

Growing its number of reps is integral to the company's strategy because part of its business model is based on generating volume. "Our mentality, or what we believe in, is if we beat anyone's prices and satisfy that merchant, we got a merchant for a life," Khairkhah says. "Basically, we think of ourselves like Costco. Our overhead is less... We're not interested in gaining \$60 or \$70 a month on that merchant. We're happy with 25 bucks a month so we go for more volume."

### **Embracing Full Disclosure**

Rather than give away terminals, VMS embraces the leasing model—"a dying sport in our industry," says Khairkhah. In 2006, 90 percent of the company's business came from leasing and, while that has diminished, it remains important to the company's strategy. VMS wants its merchants to save the larger amount of money they would have to put down upfront buying terminals to lease them so the merchants can free up cash for marketing, advertising, to increase inventory, or for other purposes. VMS sales reps are trained to explain to merchants about the hidden fees involved in accepting free terminals.

"We're full disclosure," Khairkhah says. "We say, 'Lease the terminals at \$29. Your statement is \$10 and your monthly minimum is \$25, and that's it. Those are our costs. There are no hidden fees. Sometimes it's difficult to relay that message on the phone, overcoming free terminals, but if you do it the right way, it can be done.'"



Of course, there are always exceptions. If a rep asks Barakat if she can help them close a huge deal by offering free terminals, she'll do it. "Yeah, of course, I'm going to give them free terminals because they've been in business and they process 'X' amount of dollars and, hopefully, we make our money back on the residual side. But leasing has definitely been a great part of our business and we always expect to keep that aspect of it."

Another strategy to the company's growth came in 2006 when it made the decision to stop outsourcing many of its operations. That's when VMS brought in Hafez Barakat to oversee many of the administrative sides of the business: deployment, risk, underwriting, equipment, customer service, retention, and quality control among them.

Hafez Barakat formerly worked at the restaurant chain T.G.I. Friday's and likens his role at VMS to that of a general manager of a restaurant. "I have my hands in every thing," he says. "At Friday's, they teach you not only as GM, but what it's like to be the bar manager, in the kitchen, in the front of the house—they give you all the training in all different aspects of the business. That's how I wanted to be here, so I know what

happens in each part of the deal process all the way to the merchant."

Having built such a large and successful company by such a young age, Dema Barakat is now taking more time to enjoy her life. She works three days a week and often brings her 19-month-old daughter to work. In building the business, she acknowledges she had to give up some things that normal 20-year-olds do, like going out and traveling.

But she's very proud of her accomplishment.

"I am proud of everybody," she says. "I am proud of where we are at right now. It is a story that, sometimes when I drive to the building and I look at the building, I'm like, 'Wow, this is an American dream.'" TT

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## WORDS FROM THE WISE

- Take each day as a learning experience. "This industry has a lot of trials and tribulations," says VMS CEO Danoush Khairkhah. "Find the competitive advantage and relay that message to clients. Don't leave them [hanging] out to dry. I tell them to invest in their people. If they're true to their company, reciprocate that feeling back to them by showing appreciation."
- Try to do as much in-house as possible. "Don't outsource too many things because you lose that accountability aspect and that's why some companies get in trouble," Khairkhah says. "Our motto here is, 'We deliver what others promise.'"
- Get good legal advice. VMS founder Dema Barakat has a two-year degree and grew the company starting in her late teens and early 20s. "In the beginning, I wish I had gotten more legal advice," she says. "I wish I didn't just make decisions because of trust."



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