WHITE PAPER

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Credit Card Processing

Justifying Merchant Services Fees

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Whether your business accepts it or not, the future of payments is electronic. Enhanced electronic payment options are now able to deliver superior transaction convenience, security and speed to consumers and merchants. Staying on top of merchant trends will incentivize more purchases and makes the overall purchase experience more enjoyable.

Early adopting consumers are already downloading Smart Phone apps that enable them to complete retail transactions via barcode scanning; a feature that is designed to make credit card/debit card swiping a thing of the past. According to the 2010 Household Study completed by Fiserv, consumers of today are increasingly drawn to organizations and businesses offering flexible payment options, placing financial control into their hands. While not all consumers will choose to use their mobile devices to complete payment transactions, this optionality is a sign of the growing trend of increased purchase options. Businesses that don't offer electronic payment option choices to consumers will fall wayside to early adopters.

The Market for Merchant Services

To recap the market for alternative payments, 609.8 million credit cards are currently held by U.S. consumers, according to a study released by the Federal Reserve Bank of Boston in January 2010. This number has increased drastically over the past decade. The U.S. Census Bureau recently reported that there were 159 million credit card holders throughout the U.S. in 2000.Of the nearly 600 million consumer credit cards currently in circulation, the breakdown by card type is as follows:

- American Express credit: 48.9 million
- MasterCard credit: 171 million
- MasterCard debit: 123 million
- Visa credit: 269 million, as of Sept. 30, 2010
- Visa debit: 397 million, as of Sept. 30, 2010

According to a report released by the American Bankers Association in March 2009, credit cards are currently responsible for more than $2.5 trillion in sales worldwide.

Businesses interested in capturing their share of this consumer activity must offer credit card processing in their suite of accepted payment options, both in person and online. Before implementing a merchant services processing system, take time to understand the basics of the overall process, as well as fees assessed by solution providers, so you can select the system and the provider that are best suited for the needs of your business organization.

The Basics of Payment Processing

There are three basic steps involved in payment processing:

Authorization→ Settlement →Funding

Authorization

Authorization is the process involving verifying the validity of the credit card offered by the consumer for goods to be purchased. Authorizations can be completed through a point-of-sale (POS) terminal, via the telephone or through an e-Commerce enabled website.

Authorization generally follows these steps, completed within mere seconds:

1. A credit card is offered as payment for a purchase.
2. The card's information is transmitted to your merchant services provider for verification.
3. An approval or decline notification is offered
4. If approved, you will be provided with an authorization number.

Settlement

Despite the transaction's approval, to be completed in full, it must be settled. Settlement refers to the process of transmitting electronic payments. As a merchant, you will present approved transactions to your merchant services provider; in many cases this can be done electronically by downloading large batches of information daily or weekly. Your merchant services provider will present these settlement requests to the card issuer, often Visa or MasterCard, for payment completion.

Funding

Following approval and account settlement, you will be compensated for merchant services transactions that have been successfully completed. Funds will be transferred or deposited into the selected or designated account.

Credit Card Processing Fees Explained

One of the most important decisions business owners face when implementing a merchant services program is choosing among the various fee structures offered. There are three common fee structures commonly offered when establishing merchant service account relationships; Enhanced Rate Recovery (ERR), Tiered and Interchange.

ERR

This fee structure offers a single rate per merchant account, often negotiated with the merchant services provider at the time the relationship is established. This fee structure is recommended for businesses that see a low monthly transaction volume in the form of credit cards.

Tiered

This fee structure involves multiple tiers of transaction pricing. The four most common tiers are debit (PIN entered at check out), qualified (swiped credit card transactions), mid-qualified (credit cards manually keyed into the terminal) and non-qualified (corporate or international credit cards swiped or manually keyed). Each tier rate is negotiated with the merchant services provider.

The tiered transaction structure is most advantageous to organizations that see a medium sized volume in credit card transactions.

Interchange

Interchange pricing is comprised of fees derived from the Interchange table, with the addition of a surcharge. The surcharge amount can be negotiated with your merchant services provider. Businesses that transact a large volume of credit cards benefit from the interchange fee structure.

In addition to the basic fee structure options, a number of other fees can be assessed. As a business owner, your goal should be to understand what fees are commonly assessed as well as how to negotiate those rates as low as possible in an effort to preserve your bottom line profits.

Here are some of the more common fees assessed beyond the basic fee structures previously described:

Discount Rate-The percentage (%) charged for each completed transaction. This fee is typically the most significant fee paid to the processing company.

Transaction Fees- The amount charged to complete each transaction in addition to the discount rate. While transactions are commonly associated with processing credit card payments, many merchant services providers consider any communication with their organization as a potential transaction.

Flat Fees- Fees that remain the same regardless of the fees structure selected. Examples include monthly membership fees, account statement fees and contract cancellation fees.

Statement Fees- Charge assessed for the delivery of a monthly account statement.

Monthly Minimum Fee- Charge assessed when a minimum monthly transaction volume per the agreement isn't achieved.

Batch Fee- Fee assessed for consolidation of account activity, which occurs when the merchant send over the activity for a given period to their merchant services provider for payment.

Annual Fee- Some merchant services providers assess an annual or even quarterly fee, for account maintenance.

Contract Termination Fee- Some providers assess an early termination fee to merchants who end their contracts prior to the specified term.

It is important to note that fee structures offered and additional fees assessed vary greatly among merchant services providers. When establishing a relationship with a provider, many of these fees are negotiable.

Saving Money on Credit Card Processing Agreements

General knowledge of the aforementioned fees will place you in a stronger position to negotiate your credit card processing agreements. Here are a few tips to consider during negotiations:

1. If you are a smaller organization, ask providers about the interchange pass through option. This option, while not typically offered to smaller businesses, enables you to capitalize on wholesale fee pricing.
2. Choose a provider that does not assess an early contract termination fee. Or alternatively, request that it be waived.
3. Review all fees assessed with your provider and attempt to negotiate each one. Remember; almost every fee listed can be reduced or eliminated completely.
4. Negotiate your Discount Rate. When seeking to compare rates offered by merchant services providers (MSP), begin by comparing fees that would be assessed for your average ticket sales.

Below is the formula to help you compare assessed rates:

Per-Transaction Rate / Average Ticket Sale + Discount Rate

= Rate Assessed by your MSP

Illustrative examples:

Merchant #1's average monthly ticket sales are $200. The discount rate offered is 1.65% and the transaction cost is $0.30.

$0.30/200= $0.0015 + $0.165= $0.018, or 1.80%

Merchant #2's average ticket sales are lower, at $25 per transaction. The fees paid by Merchant #2 are the same as Merchant #1.

$0.30/25= $0.012 + $0.165= $0.177, or 17.7%

Based upon the examples provided, you can ascertain the importance of your business's average transaction amount.

5. Consider purchasing your equipment rather than leasing.

6. Negotiate your minimum monthly transaction amount; tremendously beneficial to smaller, growing organizations.
7. Once in an agreement, periodically monitor the marketplace to ensure that you are not paying above market rates.

Negotiating your credit card processing agreement will allow more revenue to flow through to your business's bottom line.

The payment landscape is changing; electronic payments are not only the future landscape for consumer transactions, they are the present! Offering the option for consumers to pay for goods and services via credit cards and/or debit cards, provides tremendous value for your organization.