The hidden costs of doing business: Credit Card Processing Fees

By Susan Rose

NO BUSINESS SHOULD REALLY BE WITHOUT THE CAPABILITY OF ACCEPTING CREDIT CARDS because overall the pros outweigh the cons. Consumers, even now, demand it, and it's more often than not a way to ensure a timely payment. Most transportation and hospitality companies make it a virtual requirement for the traveler in order to reserve a hotel room, rent a limousine, buy a plane ticket, and so on for good reason—security. Credit cards usually mean instant payment: the card is charged, the money is debited to your account, and business moves forward. No billing, no 30- or 60-day terms, no accounting person chasing invoices.

It's actually a bit more complicated. As anyone who accepts credit cards knows, there are fees associated with charging a card—and they are vast. Above and beyond the interchange fee that major card associations—Visa, MasterCard, Discover, American Express—charge, the card processing company (also known as merchant services) gets a cut of the transaction. When all is said and done, the fees could be as high as five percent of the entire purchase. What's worse is that there are tons of different ways to classify credit cards and a wide spread on the amounts that are charged based on whether the card was swiped or not, the amount of information provided at the time of the transaction to ensure security, and the type of card used.

How it works

You already know that if you charge a customer $100 on a credit card that you don't receive the full amount. The card association, such as Visa and MasterCard, takes a percentage of the sale, called the interchange fee. This fee changes often, but is not negotiable for the merchant—this is the cost of accepting credit cards. Then the processor takes its fees, generally a percentage, called a discount fee. Some processors may also charge a transaction fee, which could be in addition to the discount fee. So your $100 can quickly become $95.75 if the interchange fee is $2.75, the discount fee is $1.00, and the transaction fee is 50 cents.

> *"As a rule of thumb, the more information given at the time of sale, the lower the fee will be … a debit card that uses a PIN is typically considered a safer purchase…"*

Fees, fees everywhere

When you signed up with your merchant services company, did you get a list of the rates associated with each type of transaction? Did you even know that there were different levels of transactions? When you get your monthly statement, do you understand it ... or even bother to read it? Fees for the credit card terminal lease. Monthly maintenance fees. Fees to deposit the money in your account (batching). Authorization only fees. Setup fees. Chargeback fees. Transaction fees. Fees on top of fees. There is some good news: most of those fees (with the exception of interchange) are negotiable.

What you don't know is that some processors will charge a flat percentage of interchange plus markup (how they make their profits), but a more common practice is to charge the merchant on a three-tiered level, depending on how the card was processed and the type of card.

As a rule of thumb in the tiered pricing structure, the more information given at the time of sale, the lower the fee will be. For example, a debit card that uses a PIN is typically considered a safer purchase than hand-keying a credit card without the customer's ZIP code and number of the street address or the CVV2 code (also called CVC2, CVV, or CID code). This is called AVS, or address verification services.

There are generally three tiers of fees, from most secure to least secure: qualified, mid-qualified, and non-qualified. This could vary from processor to processor.

- Qualified rates meet the level of security set forth by the processor, such as swiping the card and entering the CVV2, the three-digit code on the back of the credit card.
- Mid-qualified rates are higher than qualified and generally cover a keyed-in card with AVS. Internet purchases could fall into this level as well. However, mid-qualified rates could also be associated with the type of card that a customer uses. For example, many customers use "rewards" cards that either give the customer cash back or earn them points or gifts. Guess who pays for those rewards? Even if the card is swiped and all the customer information is captured, rewards cards are considered mid-qualified.
- Non-qualified rates are the highest rates a business will be charged. If no AVS is performed on a keyed-in card, then it will be non-qualified. This high rate directly correlates to the level of security an operator performs. The lesser the legwork upfront, the higher the fees.
- Debit card purchases should fall outside these pricing structures if, at the point of sale, the customer enters a PIN. Debit purchases are typically a low flat fee, although it can vary from processor to processor. Business debit card purchases, however, could be higher than personal debit card purchases.

What to do

If this was the first time you ever heard the terms "qualified" or "mid-qualified" or if you have no idea if you are charged for batching or monthly maintenance fees, then it's time to get a handle on where your money is going. Break out your processing statement and read through the fees. If you don't understand them, call your processor and ask. Keep asking until you understand every fee you are charged. Here are some suggestions on how to rein in those costs.

> *"…an honest processor will make you aware of all the different types of costs so that accepting credit cards is profitable for you. This should be a partnership between the limousine company and processor."* — Crystal Sulzer, Ferrari Merchants

Pick a processor that understands the industry you are in.

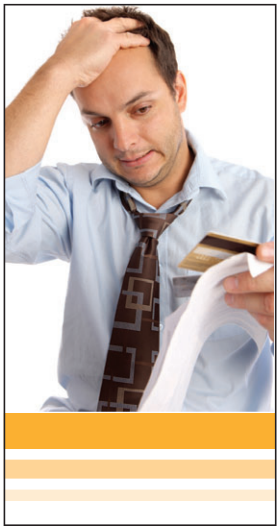
Your processing company should be an extension of your business and you should feel comfortable with your choice. Do you accept online reservations and process the sale online? That could be a different charge than swiping the card or keying it in. Do you have foreign customers? There could be an additional fee for accepting non-U.S.-based cards. If the processor doesn't understand your industry or your business, then it can't recommend the best services for you. Ask questions and to ask for industry references or check with the Better Business Bureau.

Different processors change different fees, so shop around.

Processing is a highly competitive business, so the rates vary widely from company to company, says William Collins, senior director of vertical market strategy for Heartland Payment Systems. Most importantly, fees, except for interchange fees, are negotiable. "There could be 10 different fees that the [processor] charges in order to get that extra [money] out of the merchant," says Collins. He adds that some processors will use the ever-changing interchange fee to pad their profits while still charging transaction fees. He says that if the fees are not clearly disclosed and indicated on the customer's statement, then they could be hiding something. Some processors, for example, will bundle the fees and subtract it only once a month instead of at the time of sale—which could be a lot of money if you thought it was already deducted. Others charge a hefty termination fee if you break the contract. Do you know how long it will take to get the money into your account, and how are you protected if a customer demands a chargeback? Collins suggests being armed with questions and if you don't get a straight answer, move on.

Read the fine print.

A processer can promise a great rate, but the rate may only be for specific purchases. "I tell my customers: If you see three-tiered rates, run," says Calvin Lim, VP of Century Business Solutions, who generally charges a flat fee with no tiered pricing. "That is where they add in all the junk fees. Most processors will give you a good rate because that's what you want to hear." He adds that if a processor asks you to sign a long-term contract instead of month to month, beware. He says some processors may charge teaser rates or offer good qualified rates that are impossible to achieve, while locking you in with a contract for years. "The economy is bad, so don't fall for the scams," he says, adding that if there is no transparency then they are free to cheat you.



The processor is not the enemy.

While you should use a cautious eye when signing with a

processor, they perform a valid service and help get cash fast into your hands. There are levels of checks and balances that the processor goes through to not only protect themselves, but to protect you. "We're a business, too, and we need to make a profit," says Crystal Sulzer, managing partner of Ferrari Merchants. "But an honest processor will make you aware of all the different types of costs so that accepting credit cards is profitable for you. This should be a partnership between the limousine company and processor. Unfortunately, there is a lot of abuse out there, but operators can and should shop around."

Always get a signature from the customer.

Not having a signature authorizing the payment or service makes you vulnerable to chargebacks. Getting that signature says that the customer was an authorized user and agreed to be liable for the charges. Collins and Sulzer recommend having the customer sign an agreement at the end of the ride stating that the customer was satisfied with the service and is an authorized user of the card.

Carefully weigh the value of renting the credit card terminal.

Some processors will rent the unit to a operator at very high monthly fees. If you use the machine for several years, it could have paid for itself many times over. "It's not just the terminal, it's also the service that comes with it," says Sulzer. If the machine breaks, a good processor will be out immediately to repair or replace the unit, she says. But Lim disagrees with leasing. "Some charge $60 or $80," he says. "That's a scam. [In most cases] it makes sense to buy the terminal."

"The upside is that there are numerous processing companies (and their representative entities) out there for you to choose from, so you can partner one that charges fair fees and is upfront about hidden fees."

Your business benefits tremendously from accepting credit cards. Your customers expect it, and it helps to get the money to you faster than invoicing or with personal checks. The unfortunate side effects of accepting credit cards are the fees that you are charged for the convenience. The upside is that there are numerous processing companies (and their representative entities) out there for you to choose from, so you can partner with one that charges fair fees and is upfront about hidden costs. Accepting credit cards doesn't mean you should be taken to the cleaners—by your processing company. The competition is fierce and the rates are negotiable, so never settle. **LD**