EXPANDING YOUR BUSINESS INTO AN ELECTRONIC PAYMENT PROCESSING MACHINE
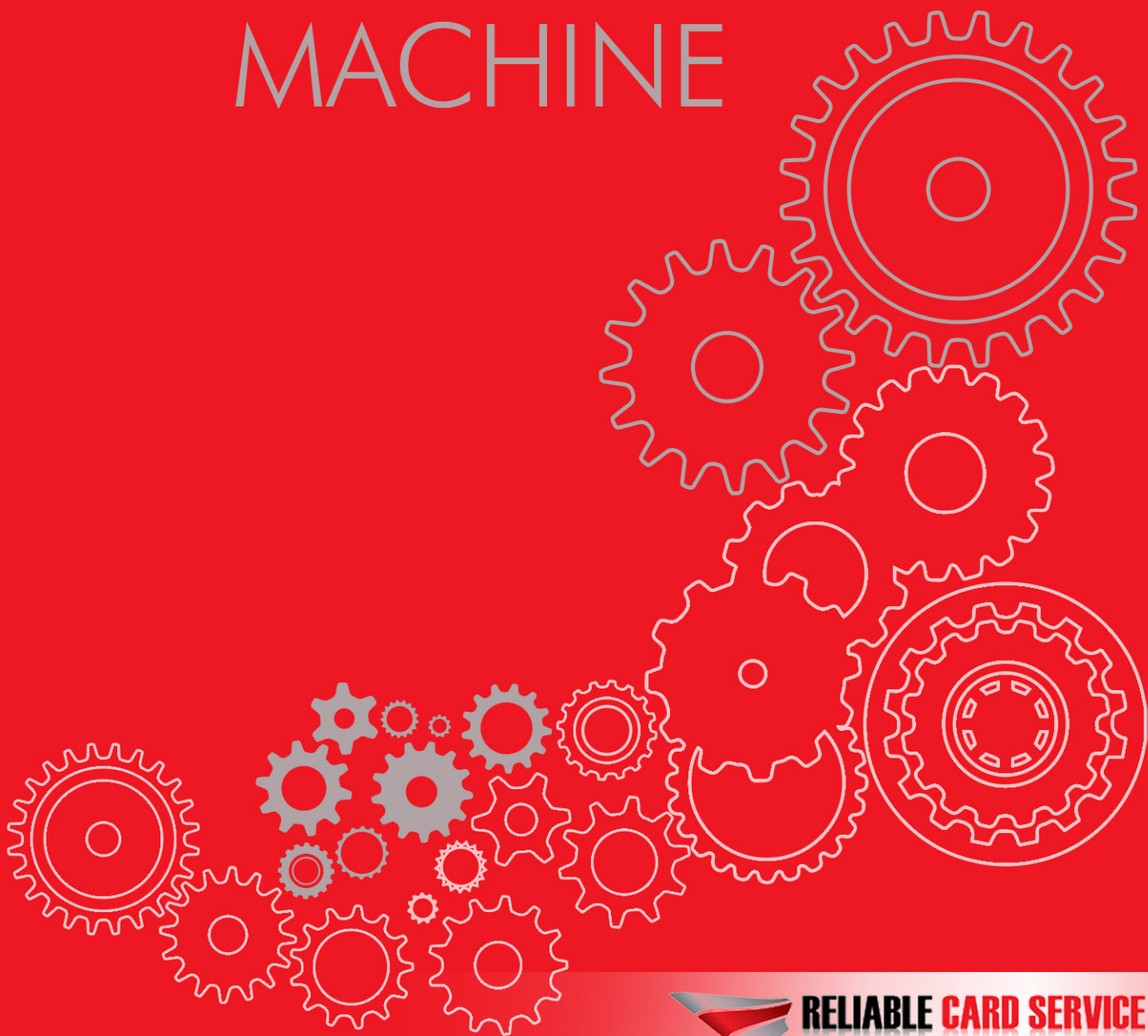
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WHAT YOU NEED TO KNOW ABOUT
CREDIT CARD PROCESSING

One of the most important decisions that you make as a new business owner is choosing how you'll accept payments. There are multiple options when it comes to credit card processors (also called merchant account providers) that are definitely worth considering.

Here at Reliable Card Service we want to provide you with the information you need for choosing the right credit card processor for your company.

THE BASICS OF
CREDIT CARD PROCESSING

There are thousands of credit card processors registered with Visa, MasterCard, American Express and Discover. Their primary function is to collect customer's money and pass it to the business they work with.

Processing these transactions is done on a very large scale by several credit card processing networks. These include First Data, Paymentech, Global Payments, and TSYS, just to name a few. These companies sell access to their networks on a wholesale basis to other companies that resell them under their own brand. These include big banks such as Bank of America and Citibank that bundle the services with other merchant services for their business clients. There are also smaller credit card processors that provide more custom tailored service offerings to their clients/merchants.

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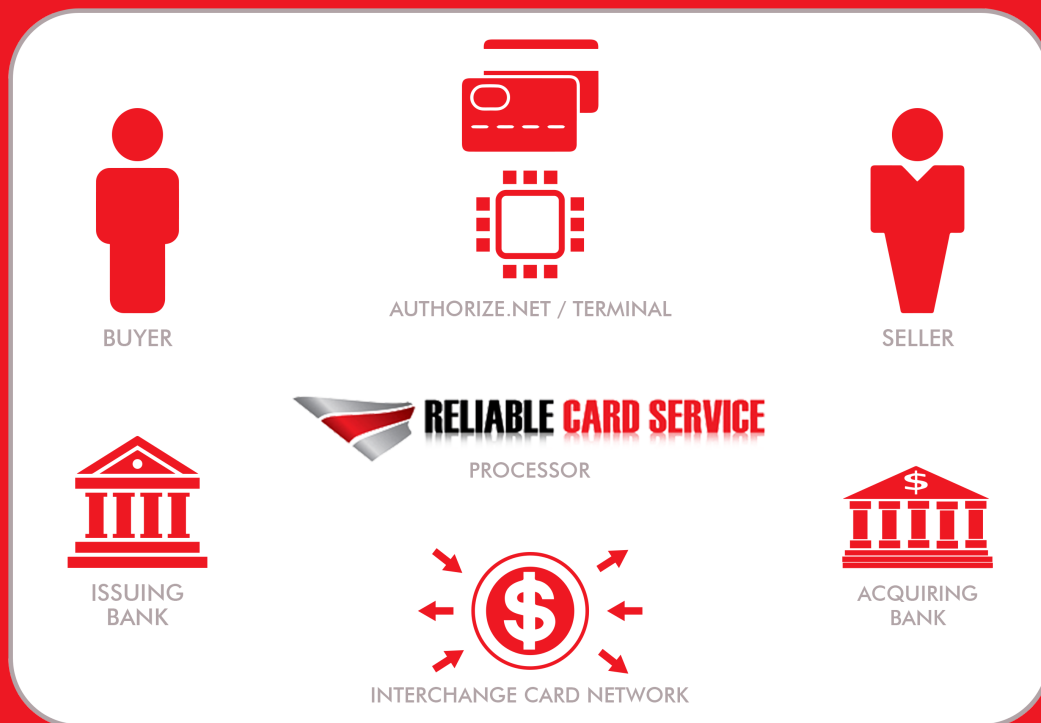
THE FLOW OF DATA AUTHORIZATION DIAGRAM

Detail the credit card processing flow from the customer submitting a card for payment through the "settlement".

BUYER

AUTHORIZE.NET / TERMINAL

SELLER

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PROCESSOR

ISSUING BANK

ACQUIRING BANK

INTERCHANGE CARD NETWORK

STEP 1. The customer submits his/her credit card for payment

STEP 2. Authorize.net manages the complex routing of the data on behalf of the merchants through the following steps/entities.

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Step 3. Authorize.net passes the secure transaction information via a secure connection to the processor. The merchant's bank processor submits the transaction to the credit card network like a (Visa or MasterCard). The credit card network routes the transaction to the bank that issued the credit card to the customer.

Step 4. The issuing bank approves or declines the transaction based on the customer's available funds and passes the transaction results back to the credit card network. The credit card network relays the transaction results to the merchant's bank processor. The processor relays the transaction results to Authorize.net

Step 5. Authorize.net stores the transaction results and sends them to the website for the customer and merchant to see.

Step 6. The merchant delivers goods or services to the buyer.

Step 7. The issuing bank sends the appropriate funds for the transaction to the credit card network, which will then pass the funds to the merchant's bank. The bank will then deposit the funds into the merchant's bank account. This is called settlement and typically the transaction funds are deposited into the merchant's primary bank account within 1 to 2 business days.

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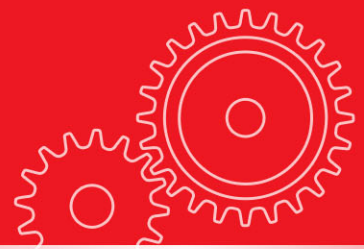
UNDERSTANDING
PROCESSING FEES

There are three types of fees associated with processing credit card transactions:

1 **ASSESSMENTS:**

These are the fees that credit card companies charge for the services they provide.

- Assessments average 4% of the total fees required for processing a credit card payment.
- Credit card companies set these fees and they are non-negotiable.

2 **INTERCHANGE:**

The bank that issued the credit card being used will also want to be paid. The largest percentages of processing fees are paid to banks.

- Interchange accounts for 78% of assessment fees
- Interchange fees are also non-negotiable and set by the credit card companies
- They are composed of a flat rate for each transaction plus a percentage of the transaction amount. For example, $ 0.10 per transaction + 1.75% of transaction volume. Pricing rules for interchange varies on a wide spectrum. Rates can vary depending on the type of card. Size of business, and how the transaction is processed (swiped vs. keyed-in vs. online gateway)
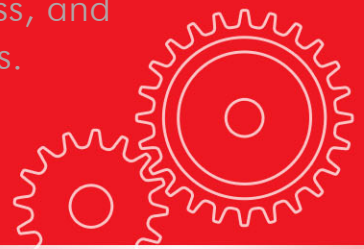
3 PROCESSOR MARKUP
The remaining 18% of fees are charged by the credit card processor/merchant account provider.
- This fee is negotiable.
- Fees are based on a variety of factors including a business's risk, size, and negotiating power.
- Processors actually combine several fees including base fees, address verification (AVS) fees, cancellation fees, and monthly statement fees.

QUICK Tip:
Sometimes credit card processors will add extra fees. Make sure you get a full listing of every fee before you work with a merchant service provider.

STARTING YOUR SEARCH

Are you ready to find the right credit card processor for your business? Great! You will probably want to gather information from a variety of different sources including:
- Your bank most likely (but be prepared for high service costs). Your bank has an arrangement with a processor. If they're a large bank, they may offer a bundled package of merchant services including credit card processing
- Internet - you can quickly look up both local and national credit card processors by doing a quick internet search. You can even check out their reviews on sites like Yelp.
- Business owners follow other business owners; they are usually more than willing to share their positive experience about their credit card processor. It's worth the time to ask around to get a good referral or two.

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PRICING STRUCTURES

Pricing for credit card processing can be confusing. Pricing structures differ widely, which makes it challenging to compare quotes. With that being said, there are multiple pricing structures out there, four ways that rates are typically quoted to merchants.

1 INTERCHANGE PLUS

This is the most transparent form of pricing because you can clearly assess total fees that include interchange; assessments in the processor's mark up. Most businesses prefer this option because it is the most affordable & straightforward way to accept credit cards.

QUICK Tip:
Interchange Plus was once only available to big businesses; however because of competition it's now available to small businesses by some providers. It's a business's most cost-effective pricing option available.

2 TIERED PRICING

Tiered pricing is another common form of pricing that groups transactions together into tiers with differentiating rates. Often processors will quote pricing from the lowest tier to entice businesses with low rates. However, rates for other tiers are often significantly higher. These rates are higher and are often not clear upfront and hidden in fine print. In almost all scenarios tiered pricing is not going to be your most affordable option.

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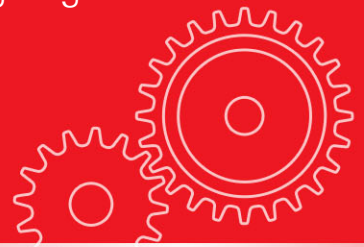
ENHANCED REDUCED RECOVERY (ERR) OR ENHANCED BILLBACK

With ERR, the credit card processor quotes a single rate for every transaction but there are often hidden fees for certain categories or cards which are doubled up on top of the fee that was initially quoted, such as a business and reward cards.

FIXED RATE PRICING

This is the most basic type of credit card processor pricing option, and the best option for many small businesses. The fixed pricing is structured with a percentage based on per item for all transactions, and usually the rate is somewhat reasonable for low processing volume merchants.

WHAT EXACTLY IS THE DIFFERENCE BETWEEN INTERCHANGE PLUS AND TIERED PRICING?

There are similarities between Interchange Plus pricing and tiered pricing. And they can even be confused. However, it is important to take the time to determine what you're really looking at when you receive a quote from a credit card processor.

HERE ARE A FEW WAYS TO DETERMINE AND IDENTIFY THE TYPE OF PRICING IN A QUOTE:

- Interchange Plus quotes include a per transaction fee, plus an additional amount which is the mark-up that the processor is making on top of the Interchange. This additional amount will be

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less than 70% of your volume and less under $0.30 per transaction. If you see amounts higher than you should look elsewhere!

- With tiered pricing you'll receive a single price quote, often called a qualified rate or discount rate. This will always be more than 1%. Often it is the range of 1.6% to 2.3%. Credit card processors that offer tiered pricing will not always be upfront about downgrade fees like mid qualified, non-qualified transactions. Often a large portion of your transactions will fall under a higher non-qualified rate.

- Before you agree to any tiered pricing plan, make sure to ask about the mid-qualified and non-qualified rates.
These are rates for rewards cards, business cards, and when customers call in orders over the phone and don't sign the receipt. If the rates are substantially higher for these types of transactions you may be better off looking at another pricing structure/option.

CHOOSING A CREDIT CARD PROCESSOR

Are you more confused than ever? Don't be. There are a few simple strategies for finding the right credit card processor that fits your business needs.

CONSIDER ONLY CREDIT CARD PROCESSORS THAT OFFER A TRANSPARENT PLAN

These providers will almost always provide you with the best price without surprise hidden charges. As well you can conduct a simple comparison of these companies because they are all using the same pricing structure.

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DON'T ACCEPT THE CANCELLATION FEES

Most processors will initially add a cancellation fee to their contract. This fee can range from $250 to thousands of dollars. When you're a new business being locked into a long-term contract it can be very risky. Most sales people negotiating a contract have the authority to waive the fee if it means getting your business. If they agreed to do this, make sure it is clearly written into your merchant agreement.

RESEARCH & LOOK FOR REVIEWS

Take the time to find out what businesses think about any processors' you're considering choosing for your merchant services. You can get good insights from the Credit Card Processor Directory as well as from Yelp or the Rip off report.

DON'T LEASE EQUIPMENT

Those credit card terminals in small stores are not all that expensive to buy. Even the larger POS systems can be purchased for less than $2,000 instead of paying a monthly rental or lease fee to a credit card processor. Consider buying your own equipment. It will save you money big time.

IF THE QUOTE SOUNDS TOO GOOD TO BE TRUE WALK AWAY FROM THE PROPOSAL

Unfortunately there are some dishonest sales reps in the credit card processing industry that have given a bad name to merchant services. They may try to lure you in with unbelievably low processing rates. But what they are usually not telling you that there are lots of

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extra fees that can end up costing you a lot of money at the end of the month. By sticking to the legitimate honest providers you have the best chance of minimizing any costly surprises down the road.

TERMINALS AND GATEWAYS

Of course you need more than just a credit card processor to take customer payments. You will also need some specific tools depending on the type of business you have.

TERMINAL

A credit card terminal is the piece of equipment you see on a retail store countertop to swipe credit cards. The information collected from a terminal is encoded and passed on to your credit card processor safely and quickly. In almost all cases you will not need to purchase a new terminal if you switch processors. They can typically be reprogrammed by your new processor.

Quick tip:
Terminals are inexpensive. It's a better deal to buy one then to rent one.
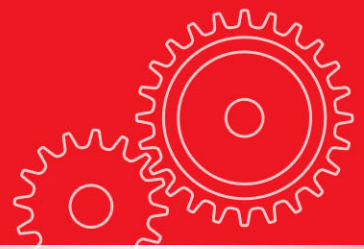
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GATEWAYS

A Gateway refers to the software that transports the credit card information from your customers (either collected on your website or a virtual terminal) to your credit card processor. If you sell online you will definitely need a gateway, as well as a credit card processor. The Gateway is what sits between your shopping cart software and your credit card processor.

Authorize.net is the most widely used gateway in the industry but some processors and retailers have their own gateways that they offer sometimes at below-market pricing. These captive gateways can be acceptable for most businesses. However, there can be challenges down the road when you want to switch processors.

POS SYSTEMS

The point of sale system is a terminal that has more features and functionality for a business. This computerized solution connects through the gateway and can collect data on purchases and generates reports for inventory. Often times POS systems are specific to an industry such as restaurants or any retail business environment.

ADDITIONAL TERMINOLOGY

Well we've already touched on the basics of credit card processors. There are some other commonly used terms that are worth familiarizing yourself with.
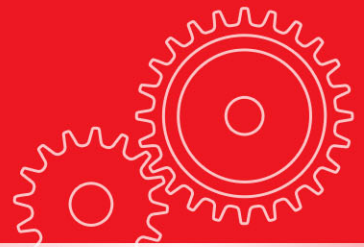
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Third-party processors serve as both gateways and processors for online payments. The most popular of these processors are PayPal, Google Checkout, and Square or Stripe.

For very small businesses with monthly Revenue under $5,000 per month they are often the cheapest solution because they have such a low setup fee and a fixed pricing model bundled with interchange included to make it more deceiving for Merchants to jump on board. Once you grow your business it pays to look elsewhere because third-party processor fees can be high as 5.5% per transaction. Funds also get held up and your business will suffer if you go over the monthly cookie cutter processing limit.

It's also important to note that when you use a third-party processor their name will show up on customer statements instead of your business. This can be confusing to your customers and can lead to potential chargebacks.

CHARGEBACKS

A chargeback is when a customer disputes the charge that appears on their bill. If a merchant is unable to pay back a customer who is disputing a charge or provide them with a new product, the merchant account provider will be liable for the amount charged back.
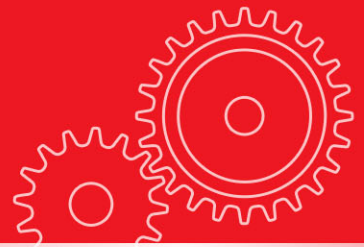
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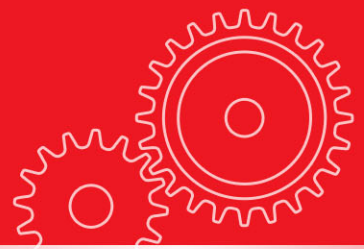
RESERVE

Credit card processors sometimes require businesses to put aside a certain amount to cover potential chargebacks/losses. Typically only businesses with bad credit or those in High Risk Industries are asked to meet the requirements of an upfront reserve or a rolling reserve.

PCI COMPLIANCE

PCI compliance rules are to make sure that customer's credit card numbers are not easily compromised buy thieves that steal credit card data. Businesses must meet PCI compliant requirements. However, this is easy to achieve by simply not storing cardholder data and letting your gateway store it instead, and following up with quarterly PCI scans that the credit card processor has been authorized to do so by the four major card brands such as Visa/-MasterCard/Discover/Amex to implement mandatory data security requirements in place to prevent fraud and keep business safe from data breaches.

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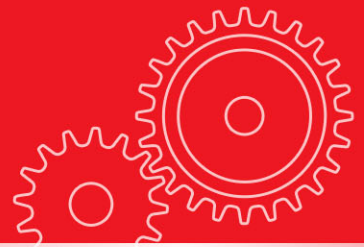
ARE YOU FEELING LIKE YOU NEED
MORE INFORMATION?

We don't expect you to understand everything and know all the details about credit card processing because it can be very challenging to keep up with all the details in this industry, however, we hope we have been very informative and provided you with the knowledge and guidance to help you choose the right credit card processing option that fits your business needs.

For additional information please contact Reliable Card Service at 1 855-903-4517 and ask to speak with one of our experienced account representatives for all your merchant service needs.