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How to Cut Transaction Costs on Customer Purchases

Tired of high credit-card processing fees? Here are three ways to save when accepting payments.

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updated

Like many entrepreneurs who accept credit cards from customers, Jon Sugihara, co-founder of PlayHawaii.com, a deal-of-the-day website, dreaded the processing fees.

"Credit-card processors [may] charge different fees depending on the card type," says Sugihara, who is based in Honolulu, Hawaii. "Our statements used to contain 10 to 12 different card fees." That is, until Sugihara signed on with FeeFighters, a service firm that helped him cut monthly processing fees by nearly a third.

More service providers are popping up with new strategies to help small-business owners. Consider these three ways to take the sting out of transaction costs for your company.

1. Avoid credit cards entirely. New services make it easier than ever for customers to pay directly from their bank accounts, without carrying cash, a debit card -- or even that old-fashioned checkbook. Consider the following new service, which allows consumers to pay for goods and services with electronic transfers from their bank accounts that they direct on the spot.

Service: Des Moines, Iowa-based Dwolla
How it works: Consumers and retailers open accounts with Dwolla, which verifies financial information so customers can make purchases via bank account transfers or an account they keep with Dwolla. Business owners never have direct access to customers' personal information. Dwolla integrates with an etailer's shopping cart the same way PayPal or similar services would. At a store location, retailers can use an iPad or iPhone or integrate Dwolla with their point-of-sale system. In person, customers use their smartphone to make a purchase. The money is transferred either immediately or within 72 hours, if the banks involved have not partnered with Dwolla.
Fee: Twenty-five cents per transaction. Plus retailers pay for technology they might need to get started, such as handheld devices like an iPad, or Internet access for POS systems.
Ideal for: Both online and brick-and-mortar retailers.
Potential drawback: Founded in 2008, Dwolla just has about 20,000 users so it's just starting to gain traction and not as established as other service providers like PayPal, which has been around since 1998.

2. Use services with fees that don't fluctuate. There are companies that process credit cards with standardized fees, so you'll know what to expect and you can plan for this expense. Here are two.

Service: San Francisco-based Square

How it works: Any individual or business can accept credit cards by opening an account with this two-year-old startup, co-founded by Jack Dorsey, also one of the founders of Twitter. Swipe and process cards with a free smartphone app and Square's free device that plugs into the phone. Square transfers payments to your bank within 24 hours.
Fee: 2.75% per transaction (more if you have to type in credit-card numbers).
Ideal for: Sole proprietors and mobile businesses without an elaborate checkout system.
Potential drawback: Might be too simple for business owners who need a full-scale point-of-sale system.

Service: San Jose, Calif.-based PayPal or Mountain View, Calif.-based Google Checkout
How it works: PayPal allows customers to pay via credit card or electronic bank transfer, making it more versatile than services that handle one or the other. And unlike many traditional credit card processors, you pay a single, flat rate regardless of what credit card customers may use and how much they charge.
Fee: Both services charge 2.9%, 2.5% or 2.2%, plus 30 cents per transaction, depending on the monthly dollar volume. For businesses with more than $100,000 in monthly sales, Google charges 1.9% and PayPal establishes fees individually.
Ideal for: Web-based businesses looking for convenience and security from an established brand.
Potential drawback: Customers need to leave your website to complete the sale.

3. Negotiate better fees from traditional processors. There are service providers that act as advocates for the business owner, finding ways to simplify bills, cut fees and lower overall costs. Here are two startups that will take your side in negotiations.

Service: West Palm Beach, Fla.-based Ideal Cost
How it works: Founded in 2008, Ideal Cost monitors the monthly bill from your existing processor and negotiates to lower your fees. For example, if a company was charged high fees when it was new because its business fell into a high-risk category, Ideal Cost might argue for lower rates after the company established a good track record. It also negotiates for speedier fund deposits if processors are holding back payment for too long.
Fee: Half of the savings it finds for clients each month. No savings, no fee.
Ideal for: Business owners who want to save money, but don't want the hassle of finding a new service provider.
Potential drawback: It's not a one-time solution; fees are ongoing with the service.

Service: Chicago-based FeeFighters
How it works: Business owners provide information, such as their industry and sales volume, then processors bid for their business in a uniform way to allow for direct comparisons. Fee Fighters also displays Better Business Bureau ratings on its comparison lists. "Processors have strict rules in their contract with FeeFighters which ensure that if any bait-and-switch occurs, they have a hefty financial penalty and get swiftly kicked off of the marketplace," says Stella Fayman, who heads up marketing and customer service for the company.
Fee: Nothing. Fee Fighters gets a cut from the processor once you become a client.
Ideal for: Any business that wants to change processing firms -- or look for one for the first time.
Potential drawback: Once you find a processor, you deal directly and on your own with that processor to close the deal.

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