

5 Things to Consider Before Accepting Credit Cards

DECEMBER 13, 2010 | 1:04 AM ET | By Patrick Egan, BusinessNewsDaily Contributor

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It doesn't matter if it's American Express, Visa or Discover — most people don't leave home without their credit cards. Few businesses are so special that they can only take cash; most start-ups have to set up their credit system before opening their door, virtual or physical. In a rush to start raking in sales, businesses often make mistakes that can cost a lot of money for quite some time.

"New businesses, they don't know any different. They don't know to fight," said Robert Livingstone, who founded [IdealCost.com](#), a credit-card consultant to businesses that makes money by renegotiating merchant-processing agreements on behalf of businesses. "They usually sign up with the first company they see."

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Merchant processors are companies that process credit cards transactions on behalf of stores and businesses. They usually contract with representatives to get new business, and those reps prosper if they extract more money from the customers—i.e., you. "Reps don't get much up front, so they want something for their immediate work," said Livingstone. That's where start-up fees come into play.

So before you sign anything with a merchant processor, slow down and read the fine print.

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The Costs:

Equipment: Businesses need equipment with which to capture credit card information. While some companies might happen upon a processor that lends the equipment at no charge, such a situation is rare. More often, companies will need to buy something. Depending on the sophistication and technology needed, that piece of equipment can run anywhere from \$200 to a few thousand dollars.

Budgets can be tight for brand-new businesses. Many opt to lease the equipment. Be careful. Those leases are often cannot be cancelled, and the sum of lease payments far exceeds the original cost of the equipment. Livingstone has seen businesses pay several thousand dollars for a \$200 piece of equipment, and they don't own it when the lease is up.

If you're signing any kind of lease, ask how long it is. Also, a quick Internet search will yield plenty of used equipment on eBay or directly from businesses that failed. Just make sure it's universal equipment that will work with any processor.

Start-Up Costs: Representatives will often tell potential customers that there is an application fee or a programming fee or both. The fees run anywhere from \$50 to \$100. Livingstone said that "99 percent of the time, they go to the representative." He suggests that you do everything you can to not pay these fees — they are negotiable.

The Discount Rate: This fee doesn't represent a discount to the business. Rather, it's the percentage of each sale the merchant processor keeps.

When a customer swipes plastic to buy something, the merchant processor is entitled to take two fees. The first is the discount rate. It ranges anywhere from just under 1 percent to as much as 5 percent. It can be difficult to figure out exactly what percentage you're paying.

Sometimes processors split the fee in two. It's all a matter of presentation. Merchant processing bills can be extremely difficult to understand. It might appear that the processor is taking a small, flat fee that shows up on the first page of the bill. But there may be other deductions towards the back of the bill that actually increase the rate.

These fees can be negotiated, especially as your business grows. An enterprise that earns more revenue with more transactions has leverage to ask for a reduction in their rates.

Acceptance Fee/Transaction Charge: Any time a business swipes a card, it's going to pay a flat fee for running the transaction. Just to get an approval or decline, a business will pay anywhere from a nickel to 60 cents per swipe.

Businesses that make smaller-dollar sales should be especially aware of this charge, because they can add up. Again, a large volume of sales should earn a business a better rate. Other than that, it can be difficult to negotiate these fees.

End-of-Month Fees: These fees range from .09 to .12 percent. That's a small fraction of a percentage, but the number certainly looks bigger when applied to a month of sales.

Finally, be careful about which representative you choose to do business with. Ask for references. You're going to be handing over a lot of information to this person — very valuable information. Know just who it is that's getting it.

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