BUSINESS ON MAIN

Don't Get Burned by Credit Card Processor Fees

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Intrigued by the salesman's promise to save his company money, Joseph Lamb, founder and CEO of computer retailer Qsource Networks in Atlanta, Georgia, decided to switch credit card processing companies. With no setup fees, a free card-processing terminal and the promise of low administrative charges, he settled back to watch the savings roll in.

It didn't happen. "Within the first few statements, I knew I'd been had," Lamb recalls.

The processor had promised Lamb a low "discount rate," which is the fee merchants pay to their processor for each credit card payment accepted. It usually equals about 2 percent or so of the sale. But depending upon the type of card his customers were using and how the payments were processed, Lamb reports his actual costs were coming in as high as 5 percent of sales — "just like the last company."

In terms of complexity, understanding credit card processor fees ranks with deciphering a cell phone bill or comparing health care plans. Vendors routinely tout rock-bottom rates, but fail to make clear that those rates apply only to "qualified" transactions where a customer physically swipes a plain-vanilla credit card. If the merchant has to key in the card number and expiration date — or the customer uses a government, corporate or rewards card — higher "mid-qualified" or "non-qualified" rates can apply.

Lots of other charges can pile up, too. For starters, every credit card sale also triggers a "transaction fee" that varies from processor to processor but is typically about 20 to 30 cents per sale. If you accept payment over the Internet, you must pay a monthly "payment gateway fee."

You also may pay, among other costs, PIN debit transaction fees for debit card sales, "chargeback" fees when customers dispute a transaction, "address verification service transaction fees" for Internet sales, and termination fees if you stop using your processor's services. Many vendors also set a monthly minimum fee; if your actual fees don't meet the minimum, you pay the difference.

In addition to all this, some vendors try to lock you into long-term contracts, or push you into leasing credit card terminals for $50 or more per month (when many others will sell you a terminal for a few hundred bucks or simply throw one into the deal gratis).

To be fair, many credit card processors are transparent about their charges. But there are enough hustlers that you need to keep your guard up. "Credit card processing is a lot like used car sales," laments Lamb. "They confuse you as much as they can, tell you things they cannot prove or have no intention of doing for you, and promise anything you will believe to get you to sign up. The comparisons are typically too confusing for someone who does not know the industry to make an educated decision."

The best way to arm yourself is through education and due diligence:

- **Learn the lingo.** If you don't understand the industry's terms, you can't understand which fees are likely to impact your total costs. The Transaction Group, a Chicago-based consulting firm that helps merchants find processing solutions, has an excellent glossary.

- **Insist on seeing a complete fee schedule.** Good providers also should be willing to analyze your current bill and show you exactly what you'd pay with their service.

- **Evaluate rates and transaction fees against your customers' charging habits.** If most of your customers use government, corporate or rewards cards, pay special attention to the non-qualified rate. If you make a lot of small sales, a low transaction fee may be just as important as a low discount rate. Also ask about "interchange-plus" pricing that eliminates tiered pricing; you simply pay what card companies like Visa and MasterCard charge processors, plus a fixed markup.

- **Resist signing a long-term contract** in favor of a month-to-month deal, especially since many contracts allow processors to raise their rates any time they wish.

- **Remember that service — preferably 24 hours a day, 365 days a year — is important, too.** Cheap rates from an unreliable provider are no bargain — neither is a processor that takes several days to post money to your account when many can do it in a day. Besides, notes Robert Livingstone, president of Ideal Cost, a national merchant consulting firm based in West Palm Beach, Florida, you can't control your vendor's service, but pricing is almost always negotiable.

- **Find out what others think.** Read customer reviews at processors' websites, and check out ratings at independent sites such as Merchant Maverick.

Lamb ultimately found a credit card processor that meets his needs. "They did a cost comparison that was easy to understand, gave me a free terminal, and did what they said they would," he reports. Today, his all-in processing costs average about 3 percent or less of his credit card transactions.

If you think you might be overpaying for credit card processing, start comparison shopping now. You could save hundreds, or even thousands, of dollars annually.

A former reporter and editor for Dow Jones, where he wrote for The Wall Street Journal and Barron's, Randy Myers is a contributing editor for CFO and Corporate Board Member magazines.