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Keeping Tabs on Card Processing Costs

By Heartland Payment Systems

If your business accepts credit and debit cards, you've likely noticed the mounting cost of these transactions. By the time a credit or debit card is swiped, processing fees for a single transaction can range from two to five percent of the total sale. Indeed, fees for card processing services may be among the three highest expenses your business incurs, perhaps outmatched only by labor and product costs. Unlike employees or raw materials, you might not be sure what you're paying for when it comes to processing card transactions. Yet, it's critical to identify all of the fees and surcharges you're paying so you can begin to control them.

Unfortunately, unless you're a large corporation, you likely don't have the time or resources to manage and control these costs. And, automatic debits from your bank account can help disguise how high these markups are. Frequently, the credit card companies — Visa®, MasterCard®, American Express® and Discover® — unfairly carry the blame for rising costs because they charge interchange fees for every transaction. In reality, the card companies charge the same rate regardless of the size of the merchant. It's the payments processors — also known as merchant acquirers — that hold a large portion of the blame, marking up the interchange rate to increase their own revenues.

Payments processors can charge different rates to each merchant they work with, and what looks like a "good deal" may not be as good as it appears. To win your business, a processor may quote you a low rate, but neglect to point out that most transactions do not qualify for that rate. In fact, charges could be as much as double or triple the quoted rate, depending on the type of card and method of transaction.

Plus, when the card companies adjust interchange rates — usually in April and October — many processors adjust their base processing rates in tandem. This makes sense until you look at just how high these corresponding rate increases are when compared to the card companies' increases. For example, if Visa charges an interchange rate of 1.75 percent, your processor may mark that up and charge you 2.6 percent. When Visa increases its rate to 1.76 percent, you may see an increased rate of 2.65 percent from your processor. That's why most processors don't reveal the exact percentages to you. Instead, they simply disclose

that the card companies raised their rates. Under this system, processors can increase their profit margins — while pointing to interchange rate increases as the reason.

This is further complicated by the fact that the card companies apply different interchange rates depending on the type of transaction. There's one rate for credit card purchases when cards are physically swiped, another when card numbers are keyed in manually and yet another for over-the-phone and online purchases. Compound that by different rates for debit, rewards, corporate and platinum cards, and you end up with hundreds of different interchange rates.

While it's all cataloged in complex rate schedule documents, Visa's is more than 20 pages long and MasterCard's is about 75. The result: baffled merchants who can't make heads or tails of the rates or fees and simply go along with the costs to avoid the time and frustration associated with determining the true cost of card transactions.

Even the biggest merchants in the world deal with this issue. Wal-Mart brought a class action lawsuit against Visa and MasterCard in 2003 calling for hundreds of millions of dollars of debit processing fee reductions. The giant retailer won, and Visa and MasterCard dropped their debit card interchange rates considerably. However, most payments processors didn't drop their corresponding rates, so years later, many businesses are still paying pre-settlement debit card processing rates and padding processors' pockets.

More Tactics That Cost You More

Payments processors' unjust pricing goes further. Many hide arbitrary charges — commonly referred to as "surcharges" and "bill-backs" — without disclosing them to you. These fees often spell pure profit for the processors.

Furthermore, these surcharges and bill-backs are nearly impossible to identify and quantify on your bill. Some charges are contained in the month the transaction occurred, while others appear in the following month with little or no explanation. For instance, you might see some surcharges for July 15 on your July bill and the rest on your August bill. Surcharges might be listed as, "Surcharge 07/15/07: \$0.34", leaving you wondering if the charge refers

to the day's sales or one transaction and why it was charged — and with no way to reconcile your charges or figure out net costs and profits for transactions.

Lastly, it's important to know who is charging you for each transaction, as there are often unnecessary parties involved. At a minimum, a card transaction requires four entities: a bank that issues the card, a card company, a telephone or internet connection and a processor. The processor operates the computer system that authorizes the transactions and converts them into money that's deposited into your bank account. This simple process doesn't change, but becomes more expensive when additional middlemen are involved — sometimes as many as 12 different entities.

Often, one or more Independent Sales Organizations (ISO) represents the bank and/or the payments processor. A processor should require an ISO to disclose all its fees and pass on this information to you. Similarly, other service providers — such as an enterprise software company, internet provider or network software provider — might each contract a salesperson. Each additional middleman takes a piece of the revenue from every single card transaction you accept at your business. Sometimes a contractor or service provider is needed or helpful, but ultimately, it should be your decision whether or not they add value to the process — and you can only decide that if you know about their participation.

Card processing comes with many different nuances and complexities, but there are ways to control the cost to your business. The first step to ensure you're not paying unnecessary fees is to educate yourself. Read your next statement with a careful eye. Try to identify the source and reason for each charge, and note — and question — those left unexplained. By understanding as much as you can about the process, you'll be empowered to decide whether to continue filling your payments processor's pocketbook — or to keep that money in your business, where it belongs.



Heartland, a NYSE company trading under the symbol HPY, delivers credit/debit/prepaid card processing, payroll, check management and payment solutions to more than 250,000 business locations nationwide.

Heartland is the founding supporter of The Merchant Bill of Rights, a public advocacy initiative that educates merchants about fair credit and debit card processing practices. For more information, contact Heartland Payment Systems at 866.941.1HPS (1477) or visit HeartlandPaymentSystems.com and MerchantBillOfRights.com.