Card Processing Information You Must Know For Your Restaurant & Bar

As promised, here is your free report. Congratulations on taking this important step in reviewing your current payment systems. After you carefully read this 10 page report, and review your current services, you will know where you stand. You may be in great shape or you may have some serious problems. At least now you will have peace of mind knowing your situation. Never fear because help is only a phone call or e-mail away.

Introduction

Let me introduce myself. My name is Jeff Moe and I have been in the electronic payments industry since 2001. The reason I say electronic payments instead of credit card processing is because the services I offer are much more than just credit card processing. I work as a consultant to my customers. I help them simplify and streamline their businesses for everything to do with all forms of electronic payments.

Believe me, I have seen just about everything over the years. One common theme over time is still the unscrupulous sales practices of many independent sales organizations and independent sales people.

I have built my business on being straight forward and honest about pricing and fees. I have to say that I have lost many sales due to my honesty. Many times people just don’t want to know the truth. When I lay out all of the fees and rates to people, it can overwhelm them. I have lost accounts to salespeople who come in and offer fabulously low rates with practically no fees. Once the business owner signs on the dotted line they are locked into a 3 or 4 year contract with a substantial early termination fee (ETF).

No matter what the salesperson said verbally, the terms and conditions the business owner must abide by were there in the fine print of the contract. Short of going to court and pleading their case in front of a judge, there is no way out of one of those agreements without paying the early termination fee.

I have had many business owners come back to me with their tails between their legs, asking me to get them set back up with my services after being hoodwinked by an unscrupulous salesperson. I am sure there were many more that never had the guts to call me and admit they got cheated.

I am not saying all salespeople and all independent sales organizations are evil and dishonest. The fact is that there are more bad ones than good ones. It is not uncommon for me to assess an account and find there is not much I could do to help that merchant as far as pricing. In those cases, I am happy to deliver the good news that they have fair rates and, unless they need other services that I offer, they should not make any changes.

With all that being said, I have compiled some of the most important information you as a business owner should understand about electronic payments, and how they can affect your bar or restaurant. I know you are busy, but please take a few minutes and read this report. You may already know most of this information, but the one or two things you don’t know could be very important to your bottom line.

Pricing Structures

There are two main pricing structures, Tiered Pricing and Interchange & Assessments Plus Pricing. I will start with the most common, Tiered Pricing.

Tiered pricing – This is probably the only pricing structure you have ever seen, unless you are a very large company who has attorneys and accountants whose jobs are to negotiate pricing with every vendor and provider. Tiered pricing is normally used for statement simplicity. This format is usually three tiers of prices for processing all cards, consisting of Qualified, Mid-Qualified, and Non-Qualified. Sometimes another tier for Qualified Check Cards is added since check cards have the lowest Interchange rate from Visa, MasterCard and Discover (V/M/D). Most processors lump check cards in with Qualified Credit Cards and keep the extra profits.

An analogy for this pricing would be if your liquor supplier gave you a price for any whiskey you bought for your bar based on the price of the most expensive whiskey. Even if you bought well quality whiskey, you would still pay the premium whiskey price, because it falls within the “whiskey pricing” category.

The Qualified rate is the pricing that was advertised to you and is the rate charged for the lowest cost cards to process. These include cards such as standard check cards and credit cards with the lowest Interchange rates. *With most processors less than 10 of the over 400 interchange levels fall into this category*. As of the writing of this report, 4th Quarter 2010, for restaurants and bars the pricing for standard check cards from Visa, MasterCard, and Discover is 1.30% discount and $0.18 per transaction. For standard credit cards, the pricing is 1.65% and $0.18 per transaction. Any charge above that is profit for the processing bank and sales agent.

With tiered pricing, the processing bank gets to decide what cards fall into the Qualified pricing bucket. Very few businesses actually have the majority of the cards accepted fall within the Qualified category. This means the majority of the cards that are used in their establishment fall within the Mid-Qualified and Non-Qualified pricing categories. With this being said, the pricing that was sold to you is not what is actually applied to most transactions in your business. This is where the deception starts.

The Mid-Qualified category is where most of the cards you accept will fall. This includes rewards cards, and hundreds of other types of cards that have a higher rate from Visa and MasterCard. This category incurs a surcharge. This varies depending on the processing bank. I have seen Mid-Qualified surcharges as high as 1.79% and $0.10 per transaction. If you were sold on a rate of 1.85% and $0.25 per transaction, a card that falls within the Mid-Qualified category could now be priced at 3.64% and $0.35 per transaction. This is far from what you thought you were paying.

The Non-Qualified category is usually reserved for cards with bad magnetic stripes which must be key-entered, corporate cards, international cards, and a few others. I commonly see the surcharge for Non-Qualified to be as high as 2.29%, and as high as 6% in rare cases.

The Mid-Qualified and Non-Qualified categories are priced based on the highest cost cards that will fall within that category, leaving a huge profit for the processing bank on a majority of the cards that fall within that category. The Mid-Qualified and Non-Qualified categories are the money makers for most processors and they therefore have little incentive to help you avoid having your transactions fall within those pricing ranges. The criteria which determines which category a transaction will fall within is totally determined by each individual processor and is heavily weighted for their profitability.

Interchange & Assessments Plus pricing - This is a much more fair pricing system for the business owner. Since there are over 400 possible pricing categories in which cards could fall, this makes for a much more detailed statement. Where this pricing is far superior to tier pricing is because there is a fixed profitability added onto each transaction, just like the food and liquor you buy for your business.

With Interchange & Assessments Plus pricing, discount fees can still be well over 3% for certain cards, but no matter what rate you pay, you know there is only the fair and agreed upon markup over the raw cost from V/M/D. The ability to lump hundreds of card types into one inflated pricing category has been eliminated. Even though V/M/D adjust their pricing twice yearly, usually up, there is no opportunity to pad the price increase by the processor when you have Interchange & Assessments Plus pricing. You will always, for the life of your agreement, only pay the agreed to markup over processing cost.

Small Ticket

A few businesses qualify for a special V/M/D category of special pricing called Small Ticket. These business types include restaurant (bar serving food), coffee shop, dry cleaning & laundry, transportation (buses & taxis), video rental, cinema, car wash, newspaper and magazine stands. This pricing applies to businesses with an average ticket under $15. Interchange for this pricing structure is 1.66% and $0.11 per transaction.

What Are You Paying For?

When you pay the fees for accepting cards for payment at your business, what exactly are you paying for? The majority of the fees, Interchange & Assessments, go directly to the card brands to cover their operating costs and pay dividends to their shareholders. You are also paying for a cash advance. The reason a processor does a credit check on you, to assess your risk, is because they deposit money in your bank account long before they get reimbursed from the card brands. If they front money to a fraudulent or unstable business, the bank could lose the money they advanced and have no way to collect. There is always a cost of money.

The very small “Plus” amount added onto the Interchange & Assessments fees is divided between the processing bank and the Independent Sales Agent (ISA). This covers operating expenses, and the even smaller amount left over is the profitability.

The job of the processing bank and the ISA are to provide services to you, the business owner. Unfortunately, most times the ISA is never heard from again after getting the business set up with their services. When was the last time you heard from your ISA?

I am a strong believer in partnering with each of my customers to help them maximize their profitability. This requires regular assessment of their statements and keeping them updated on the latest news in the electronic payment processing industry through newsletters. If you didn’t receive this report in your e-mail, go register for my monthly newsletter at www.plenumpayments.com. This will keep you up-to-date on the most important news in the electronic payments industry.

You may wonder how I could spend so much time on each customer when the amount I make is so small per account. After being in this industry for so many years, it only takes me a minute to look over a statement at the end of each month and see any issues that need my attention. I also only use the best processing banks. There are many processors out there, and over time I have determined who is the best of the best for customer service. I know I can depend on them to take care of any issues my customers might have. In the rare event that one of my customers cannot get their problem resolved quickly and easily, I am available to intervene and use my higher level connections and experience to get everything fixed immediately.

Important Processing Information

Here are a few important things to know about processing for your business. Knowing this information could save you a lot of money and problems. Please read through this and apply as much as you can.

Effective Rate – This is a quick way to get an idea of the actual rate you pay for your card services. Take the total amount deducted from your bank account for processing fees and divide that amount by the total amount you processed. This will usually give you a rate somewhere in the 3% range. This is a down and dirty way to compare processors as long as the processing volumes and card types accepted similar.

Something to take into consideration when calculating the effective rate is fixed fees. If your business has a very low processing volume, the fixed monthly fees, such as statement fees, wireless fees, etc. will weigh heavily in this calculation. For example, if you process $1000 in a month, your $6 statement fee will have a huge effect on your effective rate. If you process $100,000 per month, your 6% statement fee will have virtually no effect on your effective rate.

Signature Debit vs. PIN based Debit – There used to be a fixed rate for PIN based debit transactions. This is where the merchant swiped the check/debit card and handed the customer a PIN pad to enter their Personal Identification Number (PIN). No matter the transaction amount there was only one small fee. The banks found they were losing too much money and this has slowly transformed into a similar pricing structure to signature check card transactions, consisting of a percentage plus a transaction fee. When this change first started to happen, there was a cap on the total fee charged. Lately this cap is being removed and soon the pricing for a PIN based transaction will be very similar to a signature transaction.

In the service industry, PIN check/debit transactions were not used since there was no option to add a tip. Even though some newer handheld terminals have the option to add a tip for a PIN based check/debit card transaction, the way pricing is going there is not any point to deal with the complexity and expense to accept PIN transactions for service establishments.

Daily settlement of transactions is essential. Not only is this important to get the money deposited into your account as quickly as possible, but if you don’t settle the transaction within 24 hours of authorization, all of the transactions in that held batch will incur a high surcharge.

VOID vs. REFUND – This is VERY important to understand and make sure all of your employees understand. If a transaction is mistakenly entered and authorized, if you realize this before the transaction is settled, always VOID the transaction. This will not incur any discount fee and the transaction will never be seen on the cardholder’s credit card statement. However, if the transaction is REFUNDED, either before or after the transaction is settled, there will be both discount fees and transaction fees to process the transaction both when it is authorized and when it is refunded. The transaction will also be seen as both a debit and credit on the cardholder’s statement. For example, if a $20 transaction is accidentally keyed in as $200, if it is refunded you would pay nearly $10 in fees, whereas if it was voided it would cost less than fifty cents.

Tip Processing – If your business processes a substantial amount of tips for your employees, you may want to consider charging the employees for the processing of their tips. This is an available service that will deduct a predetermined percentage from tips and apply to the processing costs to offset your expenses. This of course requires not allowing employees to take their credit card tips immediately. You must pay them after the tips are adjusted and the transactions are settled.

Minimum Purchase requirement – Sometimes you may see a sign in a store stating that card purchases are only allowed for amounts over $10 or $15. It is understandable why a business would want to do this. However, it is explicitly stated in the Visa/MC rules and regulations that there may be no discrimination for card purchases, and this includes transaction amount. If a person wants to buy a pack of chewing gum with their card, you technically cannot deny them. If a customer reports a minimum purchase requirement to Visa/MC, they can levy a substantial fine and revoke a business' ability to process cards. You may display a sign suggesting that due to costs of processing to please only make card purchases on amounts above a certain amount. Most people will be courteous and keep their purchases over that requested amount. A recommended method is to build the cost of processing into your pricing. If occasionally a customer makes a small purchase, this is more than offset by cash purchases that do not incur any processing charge.

Bank vs ISO – In the past, banks were not very aggressive about acquiring card processing accounts. With current regulations changing the fees banks can charge, the need to increase income from customers has made banks try harder to get the card processing business of their commercial accounts.

Other than a few of the largest banks, credit unions and banks contract their card services through a processing bank and earn fees and commissions just as an ISO. Banks are not known for being competitive or conservative on fees and this also applies to card processing. If you have a great relationship with your bank and want to keep all services with them, just know that you will pay a premium for your card services. Even though they may imply that you must process with them if you have your business loan from them, legally they cannot restrict your ability to choose where you do your processing.

Equipment

There are several equipment types, which include Table Top Terminals, Point of Sale systems (POS), and Portable Wireless Terminals.

Table Top Terminals are the most common. These are the most simple to use and least expensive to purchase. Regular Table Top Terminals range in price from $150 to $400 wholesale.

POS Systems are great for larger establishments. They allow orders to be taken, entered at a server station and be transmitted directly to a printer in the bar or kitchen. This helps with efficiency, avoiding unrecorded or unpaid drinks and food, and also has provisions for inventory control. POS Systems come with a substantial cost, anywhere from a few thousand dollars to tens of thousands. Some POS Systems have the ability to use handheld wireless terminals. This allows the server to take the order at the table and transmit to the bar or kitchen and even swipe the payment card at the table, giving a feeling of security to the customer.

Leasing - When acquiring equipment I suggest buying the terminal in most situations. Leasing is usually not a good idea. Over the term of the lease you will pay many times the price of the equipment, and more often than not end up paying a fee to own the equipment at the end of the lease term. If you don't pay close attention and terminate the lease at the end of the term, the leasing company will renew the lease for another year. Unless you are supplying a multiple location business with very expensive equipment, don't even consider a lease. If you do think about leasing, consult with your CPA for advice.

Free Equipment - If a processor offers you FREE EQUIPMENT, run the other way. There is nothing free in this world. In order to recoup their cost for the "FREE" terminal, there will be padded pricing to more than make up for the cost of the terminal over the term of your contract. When you terminate your agreement with the processor, if you do not return the equipment in a timely manner in very good condition, they will charge you a substantial fee for the terminal.

Backup Terminal – I suggest every business have a backup terminal available at all times. Murphy's Law prevails, and a terminal will almost always fail on your busiest night or a weekend when there is no way to get a replacement shipped overnight. A reputable processor will ship you a replacement terminal overnight, but if you have a failure on Friday, Saturday, or Sunday, the soonest you will get the replacement is Tuesday morning. You do not want to turn card sales away for that long. Tabletop terminals are so inexpensive now ($150 - $400), there is no excuse to not have a spare terminal on hand. Since the terminals are so inexpensive, the quality is also lower than in the past. This leads to more terminal failures now than back in the old days.

Non-PCI Compliant equipment – A Non-PCI Compliant terminal is a terminal that has outdated encryption and security protocols which will not properly protect your customers' personal information from hackers. When you switch processors, the new processor will not reprogram your old Non-PCI Compliant terminal, even though the old processor did not require you to update. Eventually your old processor would have contacted you to require you update your equipment, at an inflated price. Sometimes this can be used as a scam to sell you a new terminal, but many times it is legitimate. Visit www.plenumpayments.com for a list of Non-PCI Compliant equipment.

As an additional service for my customers, I supply them with equipment at my wholesale cost. Therefore, I have no motivation to sell new equipment other than to keep my customer PCI Compliant and operating quickly and smoothly.

Glossary of Terms

I would like to define some terminology used in the electronic payment industry, much of which you may have heard but don't know the exact meaning. This helps me explain things in a way that is much more meaningful to you as a businessperson. This is not meant to be a complete list of terminology. It is only a brief summary of terms to help you better understand the information in this report.

Annual Fee – This is a fee commonly charged by processing banks each January, usually $79, and may go by other names such as postage fee or yearly service fee. This is a common and accepted fee in the processing industry.

Assessment Fee – This is a fee charged by the card brands, such as Visa and MasterCard. This, along with Interchange, makes up the set fees every processing bank must pay to the card brands. These fees have over 400 different levels depending on the card type and these fees are the same to every processing bank. Nobody gets any special pricing deals from the card brands.

Authorization Fee – This is a fee charged when a card is authorized and is different from a transaction fee. Some processors charge this in addition to a transaction fee. Make sure you are only paying one fee per transaction. The authorization fee is meant to be used for pass through cards, such as American Express.

Average Ticket – This is the total card processing volume divided by the total number of transactions.

Basis Point – A term used in finances referring to 1/100 of a percent (0.0001). 100 basis points equal 1%. Credit card discount fees are often referred to in basis points.

Batch Fee – The charge to settle the transactions for the day and fund your business bank account for the card payments received.

Card Brand – This is referring to brands such as Visa, MasterCard, American Express, JCB, Diner's Club, etc.

Chargeback – This is where the cardholder disputes the charge to their card. This can be done for many reasons. The most common reason is where the cardholder does not recognize the name of the business shown on their credit card statement. Another common cause for chargeback is an unresolved dispute over service or amount charged. Unfortunately, there are people who will dispute a transaction in order to avoid paying for a legitimate service or product. It is best to avoid chargebacks altogether, because resolving them is expensive and time consuming.

A common chargeback fee is $35 and a retrieval fee to collect and assess the information you submit in your defense is often $5.00. Even if you successfully defend your charge and get the chargeback reversed, you will still pay around $40. I suggest following up with any complaint with this in mind. If a business approaches ½% of their total volume in chargbacks, the processing bank will probably terminate the account. The only choice at that point would be to process though a high risk processor and pay substantially higher fees across the board.

Check Card – This is a branded debit card that is associated with a bank account. The holder may only spend money available in the associated account, unless they have overdraft protection, which will let them overdraw their account for a fee. As a business you have a choice whether to accept the card as a signature debit or PIN based debit. This is discussed in detail in the report.

Common Fees – There are fees which are valid and unavoidable, and there are fees which are nothing but profit for the processing bank. Fees have different names at different processors. Below is a general list of fees.

Transaction Fee – Should not be over $0.25 for restaurants and bars.
Discount Fee – Base credit should not be more than 2.15% and check card should not be over 1.80%. If they are much lower they are making it up in the tiered pricing. Read the section on pricing.
Statement Fee - $6 to $8 is fair. There is a cost to prepare and mail the statement.
Monthly Minimum – As explained in the glossary of terms, this is only charged if you do little or no processing for a month.
Annual Fee – Most processors charge around $79 per year. If you have great pricing and service just pay it.
Debit Transaction Fee – This fee is for PIN based debit transactions. A bar or restaurant probably will not process PIN based debit transactions so it would not apply to you.
Debit Access Fee – A fee charged by V/M/D to access the debit networks. Don’t pay over $15.
Batch Fee – This should not be over $0.25 per transaction.
Chargeback Fee – This should not be over $35 per occurrence. Avoid Chargebacks and you won’t have to ever pay this fee.
Retrieval Fee – This is a request for documentation to defend your charge in a chargeback. Avoid Chargebacks through good customer service and follow up on complaints.
Voice Authorization Fee – This is charged if you have to call the processor to get approval for a charge. This is very rare. Don’t pay over $1.00 but the chances of ever using it are very low.
AVS Surcharge – This is address verification for a hand keyed transaction. This should be rare, but don’t pay over $0.10 per occurrence.
Early Termination Fee (ETF) – This is charged if you end your contract before the term you agreed. This is sometimes negotiable. This varies from $295 to $495. See if you can make sure you are satisfied with your service before you are committed to the term by asking for a 2-month no ETF clause in your contract.
PCI/Regulatory Compliance Fee – This varies from $3.63 to $35 per month. Try to negotiate this as low as possible.
Risk Assessment – Usually 2 basis points assessed by V/M/D.

T&E Fee – This is a fee charged for accepting credit cards for travel and entertainment establishments. This fee is accounted for in Interchange and Assessments, so don't let a processor charge for it again.
Cross Border Fee – A surcharge for accepting payment from an international card. This is a fee you probably will not see often unless you live near an international border.

DDA Change – This is the process of changing the business bank account to which you have your card sales deposited. This should be a free service provided by your ISA.

Daily Discount - Taking the fees out of each transaction and depositing the difference into your business bank account.

Debit Access Fee – This is a legitimate fee charged to allow you to access the debit networks. This only applies if you benefit from accepting PIN based debit transactions, usually for transactions over $50. This type of transaction would not usually apply to a service business that accepts tips.

Debit Card – This type of card may also be a check card, however, not all debit cards are check cards. If a card is branded, such as Visa, MasterCard, Discover, or American Express, it is a also a check card. If it is unbranded, such as a card issued by an employer for payments to the holder (Not common), it may only work in certain ATMs and will be declined for payment at your business' terminal.

Discount – This is very different from the common use of this term. In the electronic payment industry discount refers to the percentage fee charged for accepting payment through your processing terminal. This is in addition to the transaction fee charged, which is usually in cents.

Early Termination Fee (ETF) – This is a fee charged by processing banks for canceling your processing contract before the agreed term has been fulfilled, usually 3 to 4 years. This is a legitimate charge since there are actual costs involved to setup a new merchant in the processing system, potential shipping fees, mailings, supplies, etc. Discuss this with your sales representative before signing the contract.

Effective Rate – This is calculated by dividing the total amount deducted from your bank account for monthly processing fees by the total amount you accepted that month by credit/debit/check card payments. This is **usually** an accurate way to know what you are really paying for your services. Please read the detailed explanation in the report.

Fixed Costs – These are the fees paid that are unrelated to the volume of processing. Some fixed fees include statement fee, PCI compliance, and yearly fees.

High Ticket – This is the highest amount you would ever expect to receive through your payment terminal. This is usually entered on your processing application and is used in the assessment of risk your business may pose to the processor. It is important to enter an accurate amount. If you exceed that amount it could cause that transaction, and sometimes all subsequent transactions, to be held by the processing bank until the details of that high transaction are received and determined to be non-fraudulent. If you happen to accept an unusually large transaction amount, contact the processor's risk department immediately to offer backup information to reduce the chances of a holdback and investigation.

Independent Sales Agent (ISA) – This is an independent salesperson that represents one or more processing banks. They should be a consultant to you and your business, not just someone who gets you signed up and then disappears. If you have a good ISA, they should be available to assist you in growing your business and keeping costs to a minimum.

Independent Sales Office (ISO) – This is the sales office which is contracted with the processing bank. Businesses are not allowed to deal directly with processing banks. If you contact a processing bank directly, they will refer you to one of their ISOs in your area. A good ISO agent, ISA, represents you and your best interests to the processing bank. Experience matters, because an experienced agent knows how to save you from unnecessary fees and charges that might go unnoticed by a less experienced salesperson.

Interchange – This is the list of over 400 levels of pricing set by the major card brands. This along with Assessment fees is the raw cost of processing charged to the processing banks. The markup on Interchange and Assessments is the cut for the processing bank and sales agent.

Keyed Transaction – If the magnetic stripe on a card does not work it may be required to hand key the card number, expiration date, and numerical portion of the billing address into the terminal. This is a poor alternative to swiping the card, but is better than losing a sale. Beware this will add a hefty surcharge onto the transaction, probably doubling the cost of accepting that payment.

Knuckle Buster – Also known as a manual imprinter, this is a slang term referring to the piece of equipment used to take a manual imprint of a card in the event you can't process electronically. Many businesses do not own such equipment, because they see it as archaic and obsolete, however, even today this is a necessary tool to be used in the event of a power outage or equipment failure.

You will need to get a voice authorization as well as the card imprint and signature to make sure the funds are available. Never write the card information on a piece of paper and enter it manually into the terminal at a later time. If the customer disputes the transaction, you will have no signed receipt or card imprint to prove the card was present. You will lose the dispute and therefore not get paid, as well as pay a chargeback fee. Also, if you just write the card info on a piece of paper to enter later, you may find the card is declined and you will not get paid.

Minimum Monthly Fee – This is an often misunderstood fee commonly set at $25, but negotiable for small businesses and startups. This fee is not in addition to your normal processing fees. The monthly minimum is a minimum amount the processing bank will charge your account for processing in the event your business does little or no processing in a month. The processing bank is guaranteed a minimum amount of income from your account. This is most likely to apply if your business is closed for a period of time and your processing volume is very low or non existent.

Monthly Discount – Depositing the total amount of the transactions for the day and deducting all of the fees at the end of the month.
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PCI-DSS (Payment Card Industry - Data Security Standards) - These are the rules and regulations you are expected to know and abide by as a business owner to protect the financial security of your customers. Be sure to read the section of the report explaining this important subject.

PCI Compliance – You are required to comply with the PCI-DSS rules and regulations. Visa/MasterCard can, and will, levy substantial fines to businesses that do not comply with the rules and allow their customers' personal information to be breached.

PCI Fee – This is the fee charged by most processing banks in order to add security to their computer systems and processing software. The fees run from a few dollars per month to over $25 per month. The main processing bank I am contracted with is in the process of creating an actual insurance policy to protect businesses from heavy fines that could be levied by Visa/MasterCard for non compliance. More information will follow in my newsletter.

SIC (Standard Industrial Classification) – Also known as a Merchant Classification Code (MCC), this is a very important piece of information to get entered correctly on your processing application. Having this listed correctly can make a difference in the rates you are charged.

Surcharge – This is a fee that is added onto your standard rate in a tiered pricing structure. A surcharge can more than double your processing cost for a transaction. Beware of Tiered Pricing Systems. Read the section on pricing in the report.

Tiered Pricing Structure – This is a common pricing structure in the industry where the fees are usually broken down into three distinct levels, Qualified, Mid-Qualified, and Non-Qualified. Sometimes there is also a tier for check cards which have a much lower rate than credit cards. Read more on this in the report.

W.A.T.S. Fee – Also known as an authorization fee, this is a fee for authorizing the transaction. If the transaction is declined, only this fee is charged. If the transaction is authorized, this fee is charged as well as the transaction fee. Never accept a contract that has both fees.

Pricing

A common and fair markup in the electronic payments industry is 50 basis points (1/2 %) and $0.12 per transaction. This is split between the processing bank and the ISA. As explained earlier in this report, most processors don't offer Interchange & Assessments Plus pricing. There really is no way to know what their markup is on the services they offer, but I can assure you it is much more than 50 basis points and $0.12 per transaction when everything is taken into consideration.

My pricing is based on high volume and keeping customers forever. If I give very fair pricing and take excellent care of my customers there is no reason for them to ever leave me. As a businessperson, I know it is much easier to keep a customer than to get a new one. Also, as a business owner, I need to have a markup on my services in order to pay expenses and make a profit. No reasonable person would deny a businessperson of making a fair profit.

I base my pricing on the Interchange & Assessments Plus pricing structure. My "Plus" is 30 basis points and $0.10 per transaction. That works out to be about $52 markup over V/M/D processing cost per $10,000 processed.

I have to share this with the processing bank, leaving me 21 basis points and $0.021 per transaction. Out of that I pay all of my overhead leaving about 12 basis points and $0.013 profitability. In your business you would never tell your customers exactly what your profitability is on everything they buy from you, and you have no obligation to do so. The reason I am breaking this down here for you is because I want you to know exactly what you are paying and where it goes. I don't want there to be any question as to how much you are really paying and if it is fair or not.

I trust that you will take this information into consideration and contact me for a conversation regarding your payment processing. I look forward to talking to you soon.

Sincerely,

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