Credit Card Processing Buyer's Guide

By the purchasing experts at BuyerZone

Introduction

When Western Union first gave charge cards to their best customers in 1914, it was little more than a gimmick. Back then, no one would have guessed that over $1.9 trillion would be charged in the U.S. in 2011. Even as US consumers cut their credit card spending during the recession years, they continued to use their cards in an increasing number of ways.

The rise in online transactions is a major contributor to that expansion. But credit card use is also growing notably on two opposite ends of the purchasing spectrum: large business-to-business transactions and small retail purchases. As a result, certain businesses that would not have accepted credit cards a few years ago have been forced to reconsider. Because when even a $4 purchase at the coffee shop is fair game, credit cards can be said to represent a critical component to business commerce.

When it's time to choose a small business credit card processing service, though, it's easy to get overwhelmed. The pitches can be confusing, especially for small businesses who have never accepted credit cards before, and some providers can be overly aggressive. Even for businesses who have accepted credit cards for years, it can be tough to compare competing offers to evaluate whether you can save some money by switching to a new provider. This **BuyerZone Credit Card Processing Buyer's Guide** can help you make the right decision, though. In it, you'll learn:

- How to choose a merchant account provider for your company
- Some common bait-and-switch tactics to avoid
- How new technology can grow your business while saving time and money
- What you can expect to pay
- How to negotiate with providers

Once you have all the information you need, use our **free request for credit card processing price quotes** service to connect with multiple merchant services providers.

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Pricing guidelines

Your rates will change depending on your particular business, credit history, and other factors. Here's a rough outline of what you can expect to pay – more details are on page 3.

	Card-present	Card-absent
Discount rate per transaction	1.5% to 2%	2.25% to 3%
Provider fee per transaction	$0.20-$0.30	$0.30-$0.50
Credit card terminals / software	$100-$500	$0 to $150

Is accepting credit cards worth it?

If your company is successfully invoicing customers, you may be put off by the costs associated with merchant services which take a percentage of your credit card sales. If your per-order cost is typically in the thousands of dollars and your customer base is stable or subject to credit checks, you may find it cheaper to continue with a traditional system of invoicing. But with the increase in business conducted online (and in particular a growing demand for mobile transactions), paper invoices are becoming a rarity.

There are a number of benefits merchant services provide to businesses of every size that quickly compensate for the transaction fees – most notably the ability to avoid potential loss from non-payment. In addition, you no longer have to spend staff time issuing late invoice notices or wait 30, 60, or even 90 days for payment.

Funds are transferred to your bank account in less than a week. This alone can be a welcome relief for businesses that experience a tight cash flow.

When selling direct to consumer

If you're selling to consumers, credit and debit cards are quickly becoming the most common form of payment, according to information published by the U.S. Small Business Administration. In fact, many consumers now expect the option to pay by card as a rule of basic customer service.

With transaction handling offered through a merchant services provider (or "acquirer" as they're known within the industry), this modern form of payment allows you to expand your customer base by providing far more convenience than cash or check payments. Also shown to boost the average sale, credit card usage is further believed to increase the likelihood of impulse purchases among consumers.

For Internet businesses

For web-based businesses, credit card processing is a must. Merchant services remove the security risks and additional burden of paperwork by processing all of your transactions directly over the Web. Most major banks and a large number of dedicated credit card processing services provide a wide range of tools to online merchants, including: worldwide account access, cash flow management, transaction details, online statements, the ability to transfer funds, and compatibility with money management platforms like QuickBooks and Quicken.

Easy to use, these services either route your site's customers from the shopping cart on your site over to the service provider's secure-payment system or enable you to directly embed a payment button on your site. It's worth noting that secure encryption can get a little tricky if you're not tech-savvy. So you may want to hire a **web developer** who can help you get everything set up properly. If that's too cost-prohibitive, many merchant service providers offer excellent setup assistance and ongoing customer support.

The pros and cons of third party merchants

It is possible to accept credit cards over the Internet without establishing your own merchant account. Third-party merchants like Square, PayPal, or CCBill accept credit cards on your behalf without requiring a credit check. But these services also have several serious disadvantages for businesses.

They typically batch your money into regularly scheduled payments, negating the advantage of quick turnaround. Their transaction fees also tend to be higher, and can be significantly higher in some cases. Therefore they're really only cost-effective if you process a minimum of transactions each month. Plus, they may not accept all types of transactions, potentially resulting in a legitimate transaction being frozen.

Types of credit card processors

There are several types of credit card processors you can turn to.

Bank

The bank you use for your business finances should be the first place you contact. Banks can be the easiest source to turn to for credit card services; many offer service packages for businesses that include merchant services. Most banks do not process credit card transactions themselves, though. Instead, they outsource the work to a third party credit card processor. It can be tough to get approved from this channel, however. Banks are likely to scrutinize your business more closely before deciding whether or not to accept your application.

Third party processor

This type of credit card processor requires no merchant account. Third party processors dedicate themselves to handling credit card processing. As such, they take care of different aspects of the transaction process such as authorization, billing, reporting, and settlement.

Independent sales organization

An independent sales organization (ISO) is essentially a registered credit card merchant broker who represents one or more third party processors. They set up and service credit card merchants but do not do the actual processing. ISOs are less selective than banks but their transaction fees are typically higher as well.

They are also not strictly regulated the way banks are. So there’s a wide range of ISOs – from reputable, established companies that provide good customer support to shady one-man operations – that use questionable "sign-up sheets" in place of contracts. Some of these sign-up sheets even hold you responsible for terms and conditions *not* listed in the document! Be particularly vigilant when evaluating potential ISO suppliers and make sure you get the full contract.

Financial service provider

MasterCard, Visa, and Discover require you to establish a merchant account through an intermediary (a.k.a. “acquirer”). Only American Express gives you the option of applying directly.

Association

Small business and trade associations often offer credit card merchant processing at discount prices. They are a particularly good resource if companies in your industry historically have trouble attaining credit card merchant status.

Offshore merchant accounts

This type of credit card processing is an option for businesses that can't use other types of accounts due to their location, credit history, or other disqualifiers. These services may have low processing fees, no taxes, and flexible guidelines and terms. But the catch is they're not subject to the same regulations as U.S. credit card processors and may not offer the long-term stability you're looking for.

Qualifying for a merchant account

Before giving you a merchant account, a merchant services provider will make sure you are a legitimate business that will not leave them liable for fraudulent charges. This process starts with a basic background check. It includes a thorough credit history review of the owners or officers listed on the application. In addition, it also requires credit references from two or three suppliers.

The most important question providers want answered is whether your business is likely to have a high incidence of “charge backs.” A chargeback is a reversal of sale that was credited to your account, usually due to an error made by the cardholder's bank, a misunderstanding by the customer, or fraud. If you've had a merchant account in the past, providers typically require previous statements to better gauge your charge and chargeback volume.

Providers also consider the type of credit card transactions your company performs. As a general rule, card-present transactions that require you to swipe the credit card and obtain a signature in person are considered to be much safer than card-absent transactions that take place by phone, mail, or over the Internet. Being a higher-risk merchant won't necessarily prevent you from getting a merchant account, but it can drive up your costs.

For the most part, tangible products are considered to be much safer than services. Also, businesses that deliver purchased goods immediately in exchange for payment are viewed as being less risky candidates for merchant accounts.

Compare offers to find the best provider

Certain companies advertise high acceptance rates in an effort to impress. But don't be lured! A 99% acceptance rate is a common gimmick and doesn't really mean much.

Instead of focusing on the percentage, look for providers who help you address any deficiencies in your credit score or can show a history of working with businesses like yours.

Mobile credit card processing provides convenience and profitability

No matter what industry you’re in, your customers are more mobile than ever before. And through mobile merchant account services, you can offer them the convenience of payment via credit card while standing in practically any location in the world. Providing a number of wireless solutions that cater to your desire for security and level of comfort with technology, mobile credit card processing dramatically improves ease-of-use while enhancing the cost efficiency of your payment process.

In particular, mobile merchant account services:

- Enable you to accept payment via all major debit cards and credit cards
- Are compatible with a wide range of mobile processing equipment and major brand platforms, including iPhone, iPad, and Android devices
- Allow you to stay connected with your business 24/7 and boost sales by accepting credit card payments everywhere you go
- Guarantee payment and funds while assessing a low per-transaction fee

Plus, with this setup in place, you’re not limited to just credit card payments. You can also accept checks and even PayPal on the go.

Mobile payment options

The foundation of mobile credit card processing is wireless communication, with every option taking advantage of this technology in some way. But depending on how much gear you want to haul around, the options can vary widely.

Currently available through most providers, popular mobile processing solutions include:

- **Smartphones** – Turn your iPhone or Android smartphone into a mobile credit card processor simply by signing up for services with an acquirer, installing their mobile payment app, and connecting a card reader – a tiny plug-n-play device that connects to one of the ports on your phone, or wirelessly via Bluetooth.

- **Laptops and Tablet Devices** – The laptops and tablet devices that are the cornerstone of your business can be upgraded to accept a wide range of payment types. Similar to a smartphone but adding the benefit of more storage capacity and information at your fingertips, this form of mobile payment processing requires an Internet connection and a card reader or PIN pad. This option can also be paired with many of the popular e-commerce platforms, including QuickBooks, enabling you to manage everything under a single solution. Known as one of the more cost-effective options, it saves on equipment purchases and monthly phone charges.

- **Wireless Terminals** – For larger operations, wireless terminals provide the exact same functionality as a standard desktop model but can be set up to accept payment where standard devices would be unfeasible or impossible to install. Using cellular or WiFi connectivity, wireless terminals are widely used in the food service industry, large outdoor festivals and events, and by delivery personnel.

- **Touch Tone Capture** – If you can use a phone, you can accept mobile credit card payments. Touch tone capture does not require familiarity with smartphone technology or a connection to the Internet. As simple as it sounds, you or your salespeople simply initiate the sale by dialing out to your individual authorization phone number. After keying in the card information via the phone's keypad, you receive an audible authorization code and the sale is complete.

The benefits of free equipment

With the shift toward mobile payment processing, many quality vendors now provide card readers and other basic equipment for free. So when you're comparing providers, be sure to take this into consideration. It not only enhances the simplicity of accepting card payments, but by having a physical card reader present, it also enables you to take advantage of lower per-transaction charges.

Pricing for credit card services

The primary fee on a merchant account is the discount rate, a small percentage the provider charges on each transaction. Banks and larger providers will base this fee on criteria including: your company's evaluated risk, average sales ticket, transaction type, and total charge volume.

Because of the difference in risk, most providers have two different rates, one for card-present transactions and one for MOTO (mail order/telephone order, also includes Internet transactions) or card-absent transactions.

Currently, card-present transactions carry a discount rate of .35% to 2%, while card-absent transactions are at .98% to 3.0%. Some credit card services set a monthly minimum fee ranging from $15 to $35 per month. So if you do a low volume of credit-card transactions, be sure to ask if there's a set minimum or, if it's variable, how the formula is calculated.

Another processing fee charged by the merchant bank is the per transaction fee. The per transaction fee is generally $0.10 to $0.30 for card-present transactions and $0.20 to $0.50 for card-absent transactions.

There is also a fee to cover the cost of issuing monthly credit card service transaction summaries, usually around $10.

Equipment and start-up costs

For card-present transactions, the biggest up-front cost will be for the terminal, the machine used to swipe cards. Basic terminals typically go for between $150 and $350. Terminals with printers are $250 to $500. And wireless terminals can run from $500 to $1000. You may want to lease a terminal instead. Leases can run as little as $25/month, although prices can vary depending on the sophistication of the terminal and the length of the lease.

If you're setting up a new merchant account, it's usually best to get your terminals as part of the deal. Many providers now furnish basic credit card processing equipment for free when you sign up for their merchant services. But you can also buy the same equipment separately.

Terminals are not required for card-absent transactions. Instead, you can get software to verify transactions through your PC. These "virtual terminal" programs are often provided free as part of an e-commerce package or sold on their own for as little as $150. Some providers even support card verification directly over the phone.

Be careful with application fees. Some providers charge application fees of up to $200. Also sometimes referred to as a “setup fee,” this charge may be non-refundable, even if your business is turned down for an account. If you're concerned about being declined, ask if the application fee is refundable. Far from being an unreasonable request, if the acquirer you’re considering won’t agree, keep looking. You’ll almost certainly find one that will.

Once approved, there may be additional setup or account activation fees. Make sure you understand exactly what you’ll be paying for before you sign anything.

Still more costs?

In addition to these basic fees, there are an astonishing number of fees that merchant services providers can charge: annual fees, programming fees, Internet processing fees, shipping and handling, American Express setup fee, software/online gateway fees, customer support fees, and statement fees. These are essentially ‘jack-up-the-bill’ fees.

We cannot stress this enough: make sure you have a complete understanding of **all** the charges you will incur before making your decision.

It's also important to make sure you're not shopping on price alone. Saving a fraction of a percentage point or a few hundred dollars up-front is not worth the headaches you can wind up with if you choose a vendor who can't provide the service you need to stay up and running cost-effectively in the long run.

Negotiating with providers

If you do not expect to charge more than a few thousand dollars of electronic payments each month, focus on lowering the set-up and monthly fees from the providers you're negotiating with.

Also, when asked to estimate your monthly sales, be conservative. You may be asked to keep a percentage (or even a full month's estimated order total) in an account to cover fraud. Also known as a cash bond or reserve account, this slush fund ensures your credit card account has enough money to pay for chargebacks, foreign transaction costs, and similar items. Unfortunately, these reserve accounts are commonly non-interest bearing – so the lower the balance, the better.

For larger credit card volumes, reducing per-transaction costs is a higher priority. A particularly good area to focus on is the merchant provider's discount rate. Since your sales tickets help determine your discount rate, be more aggressive in estimating your average sales ticket. It can also be helpful to learn what average ticket sizes you need to qualify for even lower discount rates.

Some costly pitfalls to avoid:

- **Long-term leases.** Be wary of long-term leases with early termination fees. If you are unhappy with your provider, you should be able to switch.
- **Deceptively low rates.** Watch for a tactic borrowed from the consumer credit card industry: low introductory rates that bump up after a few months. While all merchant providers will reserve the right to raise prices (MasterCard and Visa often change the rates they charge the providers), you should not go with one that signs you up for an increase.

Choosing a transaction service

While price is important, don't let it be the driving force behind your credit card purchasing decision. First, review offers from multiple service providers. Then, consider other important aspects of your buying decision.

Customer support is the most essential consideration. That's because problems in credit card processing can quickly impact your bottom line. The best way to learn about a provider's level of customer service is to obtain customer referrals from current clients. Request a short list of referrals containing merchants that are comparable to your company in size and industry. Then ask these important questions:

- Were there any issues with application and setup?
- Do you typically have to wait several minutes or more before reaching a customer support rep?
- Are your needs serviced quickly?
- How does the provider deal with charge backs?
- What's the level of support like – do they have phones staffed 24/7?
- Do they charge per incident?
- If using the vendor's equipment, how reliable is it? And how quickly is it serviced or replaced when something goes wrong?

If you plan on selling goods or services over the Internet and do not have a secure server that can encrypt credit card transaction information, make sure your provider can offer secure ordering through SSL (secure sockets layer, a widely-used web standard for security). Setting up your own secure site is expensive and technically challenging, so a provider who can furnish part or all of this aspect is well worth consideration.

Watch out for credit card processing scams

If you are not using a bank or financial company you recognize, make sure you verify the company you are considering is legitimate. There are con artists and scammers who set up fake processing companies just to collect the setup fees and then vanish.

Contact the Better Business Bureau to check the company's status if you are unsure. And if you find a credit card transaction service provider on the Web, make sure you get a physical address and phone number.

Merchant account buying tips

Here are a few more pointers to keep in mind as you're searching for a credit card servicing company.

Learn how long it takes for funds to be transferred

Providers differ on how long it takes for funds to be deposited to your account. You will want to specify whether it is a retail or MOTO transaction, since MOTO transactions usually take substantially longer to clear.

Compare variable fees

Check on fees that tend to vary between providers and may be negotiable. Such fees include set-up, cancellation, and monthly minimum.

Get the complete picture

Once you know all the fees a merchant account provider will charge you, figure out what your total cost would be based on your best and worst recent months.

Read the contract

Make sure to read the contract in detail to understand all fees, minimum charges, the term of the agreement, and termination clauses. Some merchant account providers will not cover every point and leave it to you to uncover the details.