

## The FAQs of Credit Card Processing for Small Businesses

Who a business operator chooses to handle card processing services can have a significant impact on the bottom line.

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As of the end of 2010, nearly \$1.4 trillion worth of goods and services were purchased in the United States using debit cards, encompassing nearly 37 billion transactions.

The numbers were even higher for credit cards. About \$1.9 trillion worth of goods and services were purchased using a credit card in 2010.

Together, the purchase volume of credit and debit cards in the United States amounts to nearly a fourth of the country's gross domestic product. With everyone from fast food restaurants to flea market vendors accepting credit cards, those businesses that accept only cash for payment are a dying breed.

But the process of incorporating the ability to accept credit and debit card payments isn't always clear. In this white paper, learn some of the most frequently asked questions related to credit card processing for small businesses.

### What are some of the considerations when looking for a credit card processor?

To accept credit, debit and prepaid card payments, a business operator will need what is known as merchant account. Merchant accounts are marketed to business operators either directly by the processor or sponsoring bank, or by an authorized third-party provider.

Most banks won't offer merchant accounts directly to small businesses. Instead, those businesses need to go through a third-party provider, such as Irvine, Calif.-based National Cash Systems, to secure the merchant account.

Of course, brick-and-mortar businesses will need a credit card terminal in order to accept cards for payment. In some cases the retailer leases or purchases the terminal from the processor; in others, the processor provides the terminal at no cost in exchange for an agreement on the

***Nearly \$1.4 trillion worth of goods and services were purchased in the United States using debit cards, and approximately \$1.9 trillion worth of goods and services were purchased using a credit card in 2010.***

part of the business operator to maintain services with that processor for a specified period of time.

In the case of online businesses, there are several online gateway systems to process credit cards and not all shopping-cart software packages work with every gateway. The business operator will need to ensure that his shopping-cart software works with the provider he chose.

### What fees are associated with accepting credit cards?

Businesses pay what's known as an interchange fee each time one of its customers uses a credit card.

Interchange fees are those fees that a merchant's bank pays a customer's bank when the merchant accepts credit cards such as Visa and MasterCard for purchases. When a customer uses a credit card to, say, buy a large pepperoni pizza, the bank that issued that customer's card deducts the interchange fee from the amount it pays the bank that handled the transaction for the pizzeria.

Depending on the type of card the customer uses, those fees can add up to as much as 5 percent of the transaction, although most cards carry a fee of around 2 percent of the transaction total.

The bank then pays the pizzeria operator the transaction amount after subtracting the interchange fee and an additional, smaller fee for itself. The fees go to paying the expenses related to issuing credit cards and operating the credit card networks.

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*To accept credit or debit cards for payment, a brick-and-mortar business will need a credit card terminal. Such a terminal can be leased or purchased from the processor, or it can be provided as part of the contract with the processor.*

### Do all processors charge the same fee?

Definitely not. There are more than 200 different interchange categories, and the actual interchange rate charged may vary based on the way the card information is provided, the type of card used and the kind of transaction.

For example, rewards cards have higher rates than basic cards, and mail order or phone transactions have higher rates than transactions where the card is physically presented at the time of purchase.

In the case of the pizzeria operator, when a customer phones in an order and pays with her credit card, the operator pays a higher fee than she would if the customer had the card swiped in the store.

### What can a merchant do to manage processing fees?

Operators can't avoid paying interchange fees. It's part of the cost of accepting credit, debit and prepaid cards.

However, there are steps business operators can take to make sure they are getting the best interchange rates possible on their transactions:

- **Swipe cards whenever possible.** The lowest interchange rate for a transaction occurs when a card is swiped through the terminal.
- **Use fraud prevention tools.** If operators must key-in credit card information by hand, they can lower the increased interchange rate by using Address Verification Service, a fraud prevention tool. AVS automatically compares components of the cardholder's address, such as the zip code, to the billing address of the card.
- **Settle — or “batch” — terminal and transactions at the end of each day.** Payments processors only have two days to process transactions and forward them to Visa and MasterCard, which in turn forward them to the issuing bank. If operators settle their accounts only weekly or monthly, the transactions miss the two-day time frame, resulting in higher interchange fees.

The best way businesses can save on processing costs is by encouraging customers to pay via a debit transaction rather than a credit transaction. Many card terminals can be programmed to identify the type of card used at the point of purchase, analyze the transaction to determine the most cost-effective processing method and automatically prompt for PIN or signature, depending on which payment method delivers the lower cost.

Different processors can charge different fee structures. Some processors may

### Keeping costs low

While operators must pay interchange fees, there are strategies to minimize the cost.

- Encourage customers to pay via debit card, rather than credit card
- Choose a processor with the best fee structure for the business
- Swipe cards through the terminal
- Settle transactions daily
- Use the third-party processor's expertise to minimize costs

offer lower interchange rates but charge a per-transaction fee. For business that do a large number of low-dollar transactions, that may end up costing more in the long run. On the other hand, if the transaction volume is low but the average amount is relatively high, opting for a per-transaction fee and lower interchange rates may make more sense.

In the case of most third-party providers, the company's agents can advise business operators on the best processing solution to maximize profits.

*About the sponsor: Since 1997, National Cash Systems, based in Irvine, Calif., has established successful relationships with thousands of merchants nationwide. The company's successful track record in providing clients with turnkey ATM and comprehensive payments solutions has earned it a reputation for delivering quality products while exhibiting financial stability and expertise.*