Save Money on Payment Processing:

5 Things Every Merchant Needs to Know

Understanding these five points can save your business thousands of dollars a year

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Introduction

Payment Processing Costs Don't Need to be a Mystery

Businesses often struggle to find the right merchant services provider.

In principle, it seems easy. Find a payment processing partner that offers the best services for a reasonable price.

Unfortunately, confusing billing terminology, pricing plans that lack transparency and hidden fees often make it difficult to project what you'll pay on your monthly bill.

The good news is that with a little education you can make a much more informed decision about which payment processor to partner with. Understanding these five points can potentially save you thousands of dollars a year and make your life much easier.

What You Need to Know

01 Level I, II and III Transactions

One of the simplest ways that B2B merchants can save money on payment processing is by taking advantage of the discounts associated with level II and level III transactions.

Many merchants don't know whether their payment processor utilizes level II and III transactions. A good number of the merchants we speak to are not even familiar with the concept of transaction levels.

Here is a quick overview of how it works. The higher the transaction level, the more information about the transaction that is collected and passed on to the credit card associations. Higher level transactions offer lower interchange fees (the fees you pay to the card associations for every transaction — more about those later).

Credit card companies are willing to charge less for level II and level III transactions because the more information you provide about the transaction, the less risk there is of fraud, chargebacks, or other similar issues. Reduced interchange fees from level II and level III transactions can easily add up to thousands of dollars in savings per year.

However, as a merchant you can only take advantage of these savings if your payment processor supports higher level transactions. Additionally, not all payment processors that support level II and III transactions use a pricing model that passes those savings on to the merchant. Before you partner with a merchant services provider, make sure they support level II and III transactions, and that your business will benefit from the associated savings.

02 Interchange vs. Dues & Assessments vs. Markup

Trying to make sense of how much you're paying per transaction, why you're paying that amount, and whether you could save money with a different payment processor can be enough to make your head spin.

Unfortunately, a lot of this is by design. Payment processors often use complicated pricing models to make it difficult for you to compare costs. In some cases there are hidden fees the payment processor dœsn't want you to know about as well.

It's important to understand the terminology that payment processors use when talking about their fees. A good place to start is understanding the difference between interchange, dues & assessments, and markup.

Even seemingly straightforward pricing models often contain hidden fees.

Interchange

Interchange refers to the fee charged by the credit card associations (e.g., Visa, Mastercard, etc.). This typically takes the form of a percentage of the total transaction plus a fixed per-transaction fee (for instance: 1.8% + $.10). Interchange fees can differ from one transaction to the next based on several factors, including:

- The type of card being used
- The amount of information collected (i.e., level I, II, and III transactions)
- Swiped transactions vs keyed or card-not-present (CNP) transactions

Dues & Assessments

Dues & assessment fees are separate from interchange fees, and are also paid directly to the card association.

Markup

Markup is the fee charged by the payment processor in addition to interchange and assessment. Markup fees are calculated as a percentage of the total transaction amount.

03 Pricing Models

Interchange-plus, tiered and flat rate pricing are the most common pricing models used by merchant services providers. Interchange-plus is often considered the fairest and most transparent model. However, most merchants are on a tiered pricing model.

Interchange-Plus

As the name suggests, interchange-plus consists of the interchange fee (determined by the card association) and a markup, which is set by the payment processor.

There are two primary advantages to interchange-plus pricing:

Transparency: Interchange-plus makes it easier to see exactly what you're being charged and why (though you still need to look out for hidden fees — more on that below).

Cost savings: Most merchants end up saving money with an interchange-plus pricing model, as long as the payment processor charges competitive markup rates and dœsn't add in any sneaky hidden fees.

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Tiered

Tiered pricing models used to be the industry standard. The problem with tiered pricing is that it is far less transparent than interchange-plus, so it's hard to know whether you're being overcharged. And perhaps not surprisingly, most of the time you are.

In tiered pricing, all transactions fall into one of three tiers: qualified, mid-qualified and non-qualified. Requirements for these tiers differ from one payment processor to another, and it can be very difficult for a merchant to determine which tier a transaction will fall under. Rates tend to differ significantly between the three tiers, with non-qualified transactions often having rates multiple times higher than those for qualified transactions.

Payment processors that use a tiered pricing system often lure merchants in by advertising their qualified transaction rates, even though most transactions will fall into one of the other two tiers. Consequently, merchants often end up paying far more than they anticipated when they signed up.

Flat Rate

With fixed pricing, you pay a single, fixed rate per transaction regardless of card type.

The primary advantage of a fixed pricing model is the ability to accurately project your costs. Nonetheless, most merchants will still pay more on a fixed pricing plan than with a processor that charges reasonable interchange-plus rates.

04 Padded Interchange Fees and Other Hidden Charges

There are many ways that payment processors can slip hidden fees into your monthly bill. One example is padded interchange fees.

Since interchange fees are set by the card issuing bank, you would expect them to be consistent from one payment processor to another.

Think again. Some payment processors will add an extra charge on top of the standard interchange fee without telling you. Padded interchange fees are hard to spot unless you know what rates the various card issuers charge, and you're willing to do the math on your monthly bill to ensure that the numbers work out. We're guessing you don't.

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And so are the payment processors that use this dishonest tactic. Consequently, many merchants have no idea they are paying interchange fees over and above those charged by the card issuing banks.

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05 Beware Contracts

Signing a contract with a payment processor is always risky.

Merchants are sometimes lured in with seemingly low rates, only to end up paying significantly more than they anticipated when the bill comes in.

But that's not the only reason to resist signing a contract. Merchants' payment processing needs often evolve due to growth or changes within the business. You don't want to sign a long-term contract only to find that your payment processor can't meet your emerging needs down the road.

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About Serve First Solutions

Serve First Solutions is a nationwide payment solutions firm specializing in payment system optimization for small to medium size B2B merchants in a variety of industries. SFS offers best-in-class cashless payment services and prepaid products from industry leading partners, helping our clients save time and money by improving the efficiency and effectiveness of their payment systems and associated operations.

Contact Us today for more information.