5 STEPS
YOU CAN TAKE TODAY

To Reduce Your Credit Card Merchant Processing Fees 40% to 50%

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Far too many businesses are overpaying, some by as much as 40% to 50%, for their credit card merchant account processing costs. At Midwest Payment Processing we know you want to optimize your bottom-line profit; reducing your merchant processing costs is one step to accomplish just that.

When you pay too much for processing your credit card transactions, in a sense you been taken advantage of by your merchant processor. Most merchant processing companies understand that clients won't normally get into the nitty gritty details of their processing costs. This leaves the client at the mercy of the processing company, and sadly, many companies take advantage.

Here are 5 steps you can take today to get educated to reduce your credit card merchant processing costs:

1 Understand that there are only four primary components of the credit card processing system:

a. **Issuing banks** – the bank that issues credit cards. They influence the rates that businesses pay to accept cards.
b. **Acquiring banks** – they maintain merchant accounts so businesses can accept credit cards.
c. **Card brands** – VISA and MasterCard are the architects and custodians of credit card processing. They don't directly issue credit cards but supervise a network of issuing and acquiring banks that do.
d. **Credit card processors** – more on this below

2 Further complicating the system, a business pays fees to three separate entitities each time it processes a credit card:

a. **Interchange fees** to the bank that issued the card - Interchange fees are fixed fees that remain the same regardless of which processor the business uses; it's calculated by adding a percentage of the transaction volume to a flat transaction fee.

The rates are determined on a per-transaction basis using the details of the transaction. Items like card type (debit or credit), card category (reward, commercial, etc.) and processing method (swiped or keyed) dictate the interchange rate.

Since banks don't set interchange rates independently (agreed upon with VISA and MasterCard), this is why all banks charge the same interchange rate; processors have no influence on them.

Interchange fees are non-negotiable fees that remain the same.

b. **Assessment fees** to the card brand – A business pays the card brand a series of assessments each time the business accepts a card branded with the business' logo, comprised of a percentage, a flat charge, and individual card brand fees.

Assessment fees are also non-negotiable and do not change regardless of the processor used.

c. **A markup to the processor** – The markup is the component where processors, gateway providers, sales agents, etc. make money. This is the only part of cost that varies among processors.

These include processors' monthly or annual fees, percentages, per transaction fees, statement fees, etc. Since each processor has a markup, the difference comes from how they disclose it.

Markup fees are the only component of the three that is negotiable and variable.

3 The pricing model a processor uses actually has a greater impact on cost than its rate. And, processors can arbitrarily use different pricing models and in many cases do so on a case-by-case basis:

a. **Pass-through pricing** – Pass through pricing separates the three components of cost. The processor charges interchange fees (by banks) and assessment fees (by card brands) directly to the business at cost. Consider these "pass through" costs.

The markup is charged as a single flat rate and a single transaction fee.

It's been found that pass-through pricing is less expensive, eliminates surcharges, is totally transparent, and allows for interchange optimization (ensuring that the majority of transactions process at the lowest interchange rate).

b. **Bundled pricing** – With this option the processor essentially "bundles" interchange fees, assessment fees, and its markup into its own rates, completely concealing the fixed cost of interchange and assessment fees from the business.

With this option it is impossible to accurately compare rates among processors.

Bundled pricing typically results in a high, inconsistent markup, hidden fees, and does not allow for interchange optimization.

For these reasons bundled pricing is almost always more expensive than pass-through pricing.

4 Level 1, 2, and 3 credit card processing purchasing cards and why it's important.

Credit card transactions can fit into one of three different categories, and with each level of processing there's a certain amount of data and requirement needed for verification and authorization. Basically, the more data fields required, the lower the processing rates.

Level 1 processing refers to business-to-consumer transactions. The data required for a Level 1 transaction is small – generally just merchant name, transaction amount and date are required.

Level 2 processing involves a more detailed transaction designed to support business-to-business payment processing. The data required is generally merchant name, transaction amount, date, tax amount, customer code, merchant postal code, tax identification, merchant minority code, and merchant state code.

Level 3 processing requires the most detailed data with the transactions often made with government or corporate purchasing cards. These transactions include those from Level 2 processing along with additional information such as product codes, item descriptions and quantities, freight amount, duty amount, and more.

Transactions submitted with Level 2 and Level 3 card data qualify for lower VISA and MasterCard interchange rates.

5 Rate increases can get you if you don't watch out.

The way around this for any business is to insist up front with written confirmation that the rates never increase.

It's important to monitor any "rate creep " which might occur. It's not uncommon that processors will offer an apparent low or competitive rate but shortly thereafter increase the rate and add additional fees. Monitoring the monthly processing statement is the only way to ensure the fees that are paid remain low and consistent.

At Midwest Payment Processing we know you want to be a business that optimizes your bottom-line profit. As spelled out above, one of the ways you can do that is to reduce your credit card merchant processing costs by following the 5 steps. If you've been paying too much for processing your credit card transactions, quite frankly you've been taken advantage of. We believe this isn't the way things ought to be.