Profitability Watch

Don't let credit card fees sink you: An Insider's Guide

By Jim Leport and Wade Tetsuka

I. Introduction

There isn't any product or service which cannot be obtained for less money somewhere else. The better informed you are, the more empowered you will be to achieve a better price. This holds true for the credit card fees which you are paying. For the *independent* dealer, unlike the branded gas stations and convenience stores, the selection of a merchant service provider is one which you must decide upon.

Your informed choice and your ability to negotiate the best rate is entirely in your hands, and is now more important than ever. Fortunately, independent dealers can attain better rates by considering the several key factors that determines these costs.

This article reviews many of the hidden costs associated with credit card merchant fees as well as important advice for independent gas stations, convenience stores and any merchant who accepts credit card payments.

II. Paying Too Much For Credit Card Processing?

The August 2006 *CSP® Convenience Store/Petroleum trade journal* reported that through the first quarter of 2006, utility costs and credit card fees had double-digit spikes, outpacing any sales growth. According to Dave Marple, Controller for fuel marketer and retailer Shipley Energy, *"In dollars the credit-card fees are a much larger bite, almost four times as much. Our focus has been to look at unbranding more locations … then subsequently engaging the services of a lower-cost processor."*

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These increases may occur as often as twice a year. The explanation may have been that this was simply the result of rising Visa and MasterCard rates. In reality, the merchant service provider may have also been increasing its own profits.

It is time to get a competitive proposal and a fresh look at the rates you are paying. Regardless of which merchant service provider you choose, it will have no effect upon your existing banking relationships.

III. The Golden Rule

The credit card fee rate structure, also known in the industry as "interchange rates", consists of a menu of hundreds of different rates depending upon the type of credit [or debit] card used, the industry or SIC classification of the merchant, keyed-in or swiped cards, etc. As a rule, however, the rate structure is designed to grant more favorable rates [generally referred to as "qualified rate"] to those transactions which are deemed to have the lowest risk of potential chargeback.

For example, when the zip code of the cardholder is required as a pre-requisite for authorization, the likelihood of the card being a stolen one is significantly reduced. The risk of an eventual chargeback is much less thereby leading to a "qualified" rate.

IV. Hidden Costs: Improper Set-up, Downgraded Transactions and Chargebacks

Most merchant account providers serve many different types of merchants from restaurants to Main Street retail stores. Properly setting up a merchant account is key to achieving qualified rates. Many accounts, for example, are set up with improper SIC industry codes. As a result, you may not be qualifying for the best rates if the incorrect SIC code is associated with a business having higher credit risk.

Some processors may have programmed credit card terminals incorrectly, or have not properly trained their clients on the best practices to get the lowest possible rates. For example, card terminals can be programmed to prompt the customer [at the pump] to enter cardholder zip code or other information which will result in a lower rate. Without this step, many transactions may be downgraded, resulting in "non-qualified" transactions which are subject to higher rates.

For independent stations, chargebacks can be assessed 100% against your merchant account.

As an independent gas station owner, you can be exposed to chargebacks at 100% against your merchant account. This can occur, for example, if someone purchases gas with a stolen credit card at the automated pumps and the cardholder demands to be credited back for all fraudulent purchases made. Since the risk of this occurrence is high in PATP situation, your interests are best protected by setting up the island payment terminals accordingly to limit the transaction amount, number of uses and AVS security (not all processors have this capability).

V. Bait & Switch Technique

In many cases, the processor may have quoted you a very favorable rate which, in the fine print, will only apply to "qualified" transactions. It is imperative that you understand all of the conditions for a "qualified" transaction.

If the merchant account provider was not diligent or knowledgeable in their ability to set up the card terminals properly, it may be that only a few or even none of the transactions are qualifying for the lowest rate.

Many merchants are quoted an attractively low "qualified" rate, but in most instances pay a much higher rate because of downgraded transactions.

VI. What can you do?

Ask other independent station owners about their merchant service provider and their experience. A good merchant account provider will offer you valuable advice based upon his/her experience of having served many petroleum and C-Store accounts.

Most important is to find a merchant provider whose business specializes in the petroleum and C-store industry. This will significantly increase the likelihood that your account is set up properly and that you will qualify for the lowest rates possible.

Jim Leport is Executive Vice President of the Petroleum Division of Diamond Mind, Inc., a specialist merchant service provider. He can be reached at (901) 405-1696 or jim.leport@diamondmindinc.com

Wade Tetsuka is a CPA. He can be reached at wade.tetsuka@wharton.upenn.edu