A Business Owner's Guide To Getting The Most Out Of Payment Processing

Contents

Introduction

Understanding Your Merchant Statement

Due to the difficulty you may face in understanding your merchant statement, business owners, like yourself, often associate the payment processing industry with feelings of confusion and or frustration. In fact, most disagreements between merchants and payment processors are the result of the merchant lacking sufficient knowledge of payment processing.

Therefore, it is important that you, as a business owner, understand the payment processing industry and its various pricing structures. Once you are able to understand your merchant statement, you will be able to determine the viability of your current or future processor's pricing.

Interchange fees

The main fees associated with payment processing are interchange fees. Interchange refers to the cost that credit networks (Visa, Mastercard, Discover, American Express) charge for each transaction. Each credit network standardizes its rates for the different card types it issues.

As it pertains to interchange fees, the payment processor is a payment-receiver. Therefore, interchange fees are non-negotiable. However, the markup on top of interchange is oftentimes negotiable.

Understanding your merchant statement: pricing models

Tiered/Bundled

Tiered/bundled pricing refers to a pricing structure in which the processor assigns a rate to the three different types of transactions, which are often non-qualified, mid-qualified, and qualified. Qualified transactions typically have the lowest rate out of the three transaction buckets.

Interchange-Plus

Interchange-plus pricing refers to a pricing structure in which the processor charges a rate in addition to interchange. Although the interchange-plus pricing structure offers transparency to the merchant, it is not necessarily the most cost-effective.

Flat Rate

Flat rate pricing refers to a pricing structure in which the payment processor charges a single rate on all transactions including interchange. This pricing structure is the least transparent and most straightforward. However, it, like the interchange-plus structure, depending on your type of business is not necessarily the most cost-effective option.

Introduction Continued....

Understanding Your Merchant Statement

The Issue of Variability

Since each card type has a set interchange rate, variability between the usage of certain card types within a certain billing period distorts the cost-effectiveness of a pricing structure. The issue of variability also adds to the confusion most merchants have in understanding their merchant statements. Therefore, you must look to the other fees on your merchant statement when assessing your current processor's pricing.

Markup fees

Flat rate pricing refers to a pricing structure in which the payment processor charges a single rate on all transactions including interchange. This pricing structure is the least transparent and most straightforward. However, it, like the interchange-plus structure, depending on your type of business is not necessarily the most cost-effective option.

Miscellaneous fees

Miscellaneous fees refer to additional fees that are often non-essential. In most cases, there isn't even a cost that the processor is passing onto the merchant. Therefore, miscellaneous fees are often unnecessary. Examples of miscellaneous fees are "program" fees, batch fees, and receipt paper fees.

POS/terminal fees

A business must have a POS, terminal, or payment gateway in order to accept credit cards. Oftentimes, a processor charges a lease fee or an upfront price in order to provide a piece of hardware.

Software fees

Another cost associated with payment processing is a software fee. Payment-related software can help streamline your day-to-day processes and reporting. Clover POS offers a wide range of add-on software that can help business owners simplify their managerial workload. Additional services include employee time-tracking such as Homebase, payroll reporting, and invoice distribution.

Now that you understand your merchant statement...

In order to understand your merchant statement, you must first assess the value your payment processing solution offers you. If your payments solution offers you additional functionalities that are of value to your business such as instant funding and/or POS software, then you should take note of that when assessing how much you are willing to spend on said processing solution. For help selecting a POS system, reference our guide for what to look for in a POS system.

How To Find The Best Point Of Sale System

You may be asking yourself the following questions: which one do I choose? Who do I process with? How do I know I've made the right choices when it comes to my payment processing solution?

To help out, we have outlined a step-by-step process for finding the best point of sale system for your business.

Feature / App Market:

Many point of sale systems have app markets to help any small business. These features make it easier to operate beyond just ringing in sales and accepting payments. Features like inventory tracking, employee timeclock keeping, online ordering, and even marketing to help your business grow can be found on Clover POS System.
Key take-away: make sure whatever payment system you choose, it doesn't limit you from features and functionalities that are available in today's marketplace.

No Upfront Costs:

There are many different ways to purchase or acquire a point of sale system. In the past, leasing, renting, or buying equipment outright has often been the industry norm. Yet, as the market becomes more saturated, most small businesses know they don't need to buy their own point of sale system. In fact, many options can typically come free, or nearly free. However, many payment solution providers require that you purchase a package alongside your system in order for it to be 'free'. Therefore, such packages often significantly outweigh other options.

Cloud-Based Technology:

In today's age, a technology that isn't cloud-based is irrelevant. In fact, any technology that limits access to a database is out of date. Make sure you choose a point of sale system that allows access anywhere via app or browser. With that said, any POS system that offers this will offer complete access to online reporting, inventory management, employee timeclock, and much more.

3rd Party Integrations:

In addition, along with a 3rd party app market, most point of sale systems also integrate into 3rd party software systems. Systems such as QuickBooks, Shopify, delivery services, etc. make a business owner's life easier. Therefore, you should implement them when practical.

Are You A Mobile Business?

Mobile business' are often limited in the number of payment methods that they can accept from customers. Traditionally, a mobile business would only accept cash and checks. However, dealing with such methods of payment can be a headache to manage and report. In addition, not accepting credit cards alienates some potential customers who might leave your business due to not having cash or checks on hand. Whether you are a home services provider or food truck owner, just think if you were able to accept credit cards on the go. Not only would you delight your customers with convenience, but you could view your sales activity from a single online dashboard and/or mobile application. How about that for convenience?

The rest of this section explains how you can accept credit card payments as a mobile business.

Find a company that offers mobile swipers

The first step in accepting credit cards for mobile businesses is finding a merchant services company that offers mobile readers or a mobile solution. A mobile swiper attaches to your smartphone or tablet and allows you to accept payments via a mobile application.

A great mobile swiper is aesthetically-pleasing, durable, and EMV capable.

We, at TAPLocal, offer the Clover Go. For more information, visit our POS page.

Research the capabilities of the solution

Does the solution offer mobile reporting? When will you receive your funds? Does the company offer mobile invoicing? What other solutions can you integrate with your payment solution?

A great mobile payment solution offers more than a method of accepting payments. It also allows robust reporting that can help you better manage your financials and day-to-day operations.

Research the company's pricing structure

After identifying a company that offers mobile readers, you will need to verify the company's pricing structure.

Do they charge a flat rate or interchange-plus? Will you have to pay for the mobile reader itself?

An Overview of Subscription-Based Pricing

In response to the negative stigma held against the merchant services industry, there has been a shift in payment processing. Specifically, there has been a shift toward transparency and predictability. At the head of this shift is subscription-based credit card processing.

Credit card processing c0mpanies have a reputation of using deceptive practices to increase their bottom lines. From markups to interchange, it is no wonder why business owners find it hard to understand their merchant statements. Nevertheless, as explained in the first section, understanding your merchant statement is the first step in understanding your costs and cutting them if necessary.

The rest of this section explains subscription-based credit card processing.

Subscription-Based Pricing Starts With A Flate Rate

At the heart of subscription-based pricing is the flat rate, which the subscription-based processor uses to calculate all subscription fees. The flat rate is the competitive attribute of subscription pricing. As a business owner, you should use it as a baseline in judging the cost-effectiveness of a subscription-based processor.

For your reference, the industry standard flat rate is 2.75%.

What's Your Monthly Credit Card Volume?

Your monthly credit card volume places you in a bucket. For example, if your monthly credit card volume is $8,750, you will be placed in a bucket between $5,000 and $10,000. As a whole, that bucket or group will have a fixed monthly fee for processing.

A Fixed Fee

The subscription-based processor will then multiply that flat rate by a value within your respective credit card volume bucket. The industry standard is to multiply the flat rate by the high-end of your monthly credit card volume bucket. The reason for this is to cover the costs of your bucket.

For example, if the individual who processes $8,750 a month sees a rise in volume during a particular month and overshoots the upper limit of his or her respective bucket ($10,000), costs will be covered most of the time. However, subscription-based payment processors accept that they will sometimes take a loss. However, they feel that they have more to gain by offering transparency and predictability to their clients through subscription-based pricing.

Predictability Month-Over-Month

Aside from transparency and leanness, the value of subscription-based pricing is predictability.

With subscription-based pricing, you know what you will pay for credit card processing each month.

By having that certainty, you can better manage your expenses. Therefore, you can make more informed business decisions because you have predictability on your side.

What Happens If My Monthly Volume Increases?

Increased credit card volume is a good thing. It means that you are gaining more customers. You should not pay a penalty for your business' growth. It should be seen as an opportunity by the processor to take advantage of your increased volume to sneak in hidden fees and markups.

On the contrary, subscription-based pricing leaves breathing room. If your monthly volume exceeds your bucket's upper limit, you will not pay any extra fees.

Do You Offer Gift Cards?

If not, then you should.

Improve Your Business with Gift Cards

Due to an ever-growing list of things to do and the churn of day-to-day operations, entrepreneurs, like yourself, often overlook the three areas that can instantly improve your business:

Cash Flow
Profit
Marketing

Not only are these areas the lifelines of any business, but also their proper management (or lack thereof) will turn your business into a big winner or an even bigger loser. Poor cash flow management alone accounts for 82% of small business failures. Therefore, you should always ask yourself how to increase cash flow, maximize profit, and improve your marketing actions. Luckily for you, gift cards improve all three areas and here's how.

1. INCREASE CASH FLOW

A small business owner who sells a gift card today will get the cash in hand for that sale today. However, he or she will not distribute the products or services until a future date. Therefore, gift cards increase cash flow because the business owner receives cash upfront. The business owner wins because he or she can fund operations, inventory, payroll, utilities, and pay himself or herself a little easier without providing any products or services.

3. INCREASE ORGANIC MARKETING

Gift cards are one of the most efficient and effective forms of organic marketing, even in today's digital age. The recipient of the gift card also becomes another ambassador of your brand who might tell people about your business, which increases word of mouth marketing, the golden egg in marketing and advertising. If the recipient knew about your business already, then having a gift card to your business will only make him or her a better customer.

2. INCREASE PROFIT OPPORTUNITY

When a business sells a gift card, a customer provides value in the form of cash, a check, or credit card, which the business owner then loads onto a gift card. That gift card is then issued to the purchaser and can be used at an agreed-upon time, the next visit to the business, or immediately after the transaction is completed. If the consumer redeems the full value of the balance for purchases in the future, then the sale was a 1 to 1 transaction. Other then the value of cash flow to the business, there is no other immediate monetary value of the transaction to the business.

But what if they don't?

The value in gift cards is the profitability of the un-redeemed balance that was purchased on the gift card. For example, you go to a retailer and buy a gift card as a gift for a friend. The value of the gift card is $25. You give the card to your friend and they lose the card, don't use the card, or redeem the card at the retailer for less than the $25. In all three examples, the business made more profit than if they had sold a product at the store for $25.

In fact, 65% of gift card recipients spend roughly 38% more than the value on the card.

Starting to understand the undeniable profit opportunity in gift cards?

Thanks For Reading!

Don't worry. We've got you covered.

Committed to offering transparency in an industry that will nickel and dime you, we, at TAPLocal, offer subscription-based credit card processing to our merchants. Our rates start at 2.55% which is well below the industry average of 2.75%. However, you can drive your rate down to 2% by bundling our marketing products with your payment processing. We'll even throw in a free Clover payments device and 100 custom gift cards.

We focus on the how so you can focus on the now!

Start Bulding Your Online Reputation Today!

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