

THE REAL STORY OF PLASTIC: HOW CREDIT CARD COSTS CAN EAT UP YOUR PROFITS

Eric Cohen provides an insight into how hidden fees and unethical practices could mean you are paying more than you thought to process credit card payments

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WE ARE ALL AWARE THAT IF YOU ARE IN BUSINESS YOU must accept credit cards as form of payment. What most are not aware of is how the industry works and why you need an advocate on your side to make sure your money is going in your pocket and not someone else's. You can very easily increase your bottom line up to 5% with the proper knowledge and with very little effort from you or your staff.

One problem most merchants have is that as soon as a sales rep calls and mentions credit card processing, their ears close. Practice managers, office managers and even doctors get pitched on credit card processing multiple times a month from friends, family, banks, telemarketers, and sales reps knocking on doors.

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Sales reps

The reason you are approached so often is simple, sales reps selling merchant services earn a residual income from every transaction that you process in your business. A percentage of every sale run on your credit card system will go into quite a number of people's pockets. Most believe that it is Visa and MasterCard and possibly the banks that make all the money on transactions. The secret is that there is also an acquiring bank, processing companies, independent sales offices, agents, and even possibly sub-agents that all earn a small piece of your transaction. That's up to six people that can be earning money on your back.

The problem is there is no regulation set up on the acquiring side of the business, so a sales agent working the business, who is usually not educated on the details, will do anything to sign your business up and keep the rates as high as possible. Yes, some of you are smart and shop around for the best rates and have excellent programmes; however, I will tell you later on why these programmes can be very misleading.

Unethical practice

In 2007 and prior, the margins for sales agents were excellent and an agent could make more than 1.5% of each transaction from your business without you knowing it. As the economy began to collapse, margins started to compress and competition got fierce. Many of the mortgage agents started selling in the credit card space to build a residual income after their income got slashed. This actually started the cannibalisation of the >

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industry. Margins on processing dropped to under 0.5% for many and even as low as 0.10% for agents. While this was positive for you (the merchant) at the time, what followed is why it actually could be costing you more to accept credit cards.

If you've ever looked at a merchant statement you would realise it is impossible to decipher. There are 600 plus card types, different terminology for each category, ridiculous miscellaneous fees, and really no clear way to understand pricing unless you become an expert in the industry, but who has the time? Because the industry is complicated, it opened up the door to unethical practices by agents and processors. Everyone working in the industry needed a way to make more money and unfortunately it was on the back of the business owner.

Hidden fees

In recent years we've seen fees pop-up that appear to be Visa and MasterCard fees, however, a slight change in how a line item is labeled makes this fee all profit for the processor and agents and the majority of doctors and practice managers will never find it. Just this past month I was contacted by a doctor who quoted me his pricing. When I first heard it I thought, 'Wow, he has unbelievable pricing and I probably can't help him.' However, I still asked him to send over his statement just to be sure. After closely analysing his account I found a decimal point error (not really an error as this processor has made this 'mistake' on many accounts and at different costs) that would cost him more than \$1,000 a year. No one in his office would have ever been able to find this line item as an error because it appeared as a 'normal' fee that Visa or MasterCard would charge.

Another processor we just analysed actually made a very simple error, however, once again, who would even know where to look. They labeled a cost of certain types of cards as X% and \$Y cents per transaction. Well, if you actually took the time to do the maths, the fee charged was higher than what it was supposed to be. Once again, the devil is in the details.

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Some may be thinking, well that is not the case with me, my friend set me up. Yes, your friend probably had all the best intentions; however, he or she may have been a sales agent for a processor. The issue here is processors hide things from their reps so that they can keep more of the profit. In fact, there are so many different ways a processor can hide fees and make changes without sales reps realising it. So even though a friend set you up correctly and with the 'friend' price, you may be paying much more than you should.

One final example, we just caught a processor triple charging when a doctor returned money on someone's credit card. The initial sale was charged a fee, then a line item that said credit for this sale appeared as the processor refunding money, however it was a positive fee, and then a third line item was created that allowed the processor to charge a 'surcharge' for the return (a completely made up fee). In this case, the excess fees for processing a card from someone that never became a customer cost the doctor an extra \$500.

This article could go on for pages and pages of examples of processors misleading merchants and taking money that is not deserved. The bottom line is that if you don't have someone who knows the industry and the true costs keeping a close eye on your merchant account, you could be losing a lot of money from your bottom line.



instead of giving a credit they charged the amount to the merchant,

hyphenate made-up

great deal