InterPayments

GUIDE TO

REDUCING CREDIT CARD PROCESSING FEES

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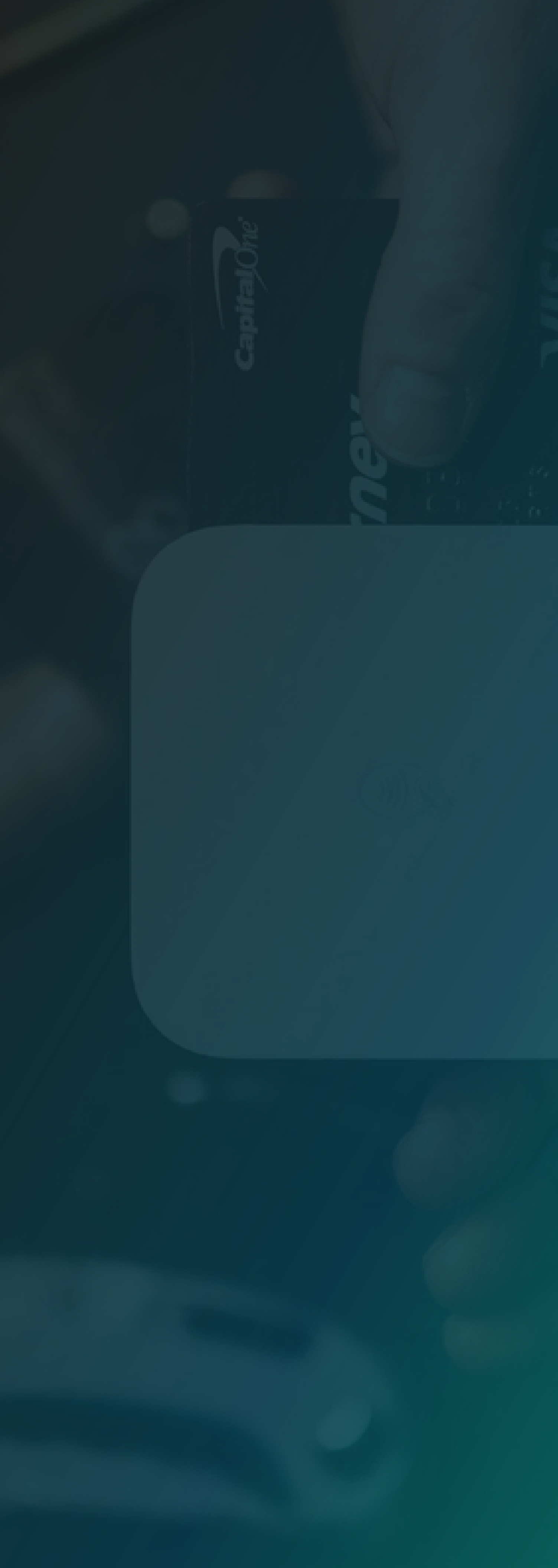

If you've arrived at this guide, it's likely because you are looking for ways to reduce your credit card processing fees. You might want to generate more business by accepting credit cards. Maybe you're interested in offering credit card payment options to your customers but are worried about how you can bear the high fees. Perhaps you already surcharge, or a payments vendor has piqued your interest about the various options.

Regardless of the motivation, approaching a new payments project is easier with an understanding of your company's margin improvement goals, your customers' shopping journey, the solutions landscape, and the purchasing process.

This step-by-step guide breaks down your fee reduction options, summarizes compliance requirements, ensures you understand your business needs, and defines what a successful product trial is. It also offers best practices and tips along the way so you can maximize the time you invest into making the best decision for you. At the end, you will be better equipped to choose the right credit card fee reduction system for your company.

Credit Card Fee Reduction Options

TIP:

WHO IS SURCHARGING?

Card usage is rising and card fees are now the 3rd largest cost for merchants. As a result, many industries and companies are already reducing fees via the outlined methods. In Australia, a global top 15 GDP country with a $1.5 Trillion economy, 40% of Australian businesses surcharge and 70-80% of all Australian online transactions are surcharged. In the US, surcharging is widespread and growing amongst both B2C and B2B businesses across a number of industries including restaurants, wholesale B2B distribution, business professional services (lawyers, accountants, architects, etc.), IT managed service providers, direct response ecommerce, auto body shops, veterinarian hospitals, parking garages, private education, and many, many more.

Surcharging

Calculate the exact amount due to the credit card network and pass this cost on to the customer directly as a "Transaction Fee" fee. There is no surcharge when the customer chooses a non-credit card payment method. Unlike the other options above, surcharging is allowed by any merchant of any type and across any payment channel. Furthermore, this might make the most sense since credit card fees are substantially higher than debit, echeck, or other forms of payment.

Don't accept credit cards

This might be the simplest solution but might deter customers and reduce sales. According to the Federal Reserve, U.S. credit card usage is growing by roughly 15% every year – a powerful trend in our digitizing economy. Credit cards ease transactions since they allow customers to float credit, convert sales to cash faster, and reduce the need to manually process and securely store checks or cash.

Cash Discounts

Provide a discount off your posted price if the customer chooses to purchase with cash. However, this only works in a physical point of sale environment; it won't work in an e-commerce or phone order setting.

Service Fees

Add a fixed dollar or percentage "Service Fee" for any debit or credit card transaction. However, only certain government, education, and non-profit entities are legally allowed to charge Service Fees.

Convenience Fees

Add a fixed percentage fee to every debit or credit card transaction. However, this is only legally allowed in one payment channel (such as your online payments); it is illegal to charge a Convenience Fee on more than one payment channel.

Establish Compliance with Surcharging

TIP:

WHAT ARE THE PENALTIES FOR NON-COMPLIANCE?

Penalties can lead to severe restrictions imposed by the card networks.

State Attorney General offices also impose fines and lawsuits based upon non-compliance; state consumer protection laws. **Riverside Café, a small restaurant chain in Wichita, Kansas, paid a $60,000 fine with its Attorney General in February 2020 for illegal surcharging, after trusting the word of its credit card processor.**

Competitors and customers are normally the ones who notify authorities. It is easy to file a complaint through the **Visa**, **Mastercard**, and Attorney General websites. This might have an impact on your business.

Should you decide to surcharge, be aware that compliance on your own is doable – but difficult. There are 67 jurisdictions that govern surcharging – from the federal and state governments to the card brands and merchant acquirers. To do it on your own, you'd need to first establish a compliance protocol with a lawyer and then continuously monitor and maintain it.

Fortunately, there are several surcharging solutions that embed compliance into their products. Choose an end-to-end compliant solution that takes all the worry and work out of staying compliant across all your payment channels. Additionally, there are certain merchant requirements that a surcharging provider doesn't directly control itself: be sure to dig deep, as many solutions claim to be compliant but aren't. Technology-forward services are likely to be most effective, efficient, and tailored to your business and customer.

Understanding the requirements and risks of non-compliance can help you choose that vendor carefully.

Key compliance considerations include:

- Keeping continuous tabs on the myriad of laws and industry regulations
- Properly validating credit cards vs. other card types
- Continuously updating card databases to ensure you track each of the 415 thousand card types and their card-specific rates with each transaction (roughly 20-30% of all cards change annually)

Some of the major illegal surcharging activities to avoid:

- Directly profiting from surcharging by charging more than the fees due to the credit card network.
- Surcharging more than 4% of the transaction amount.
- Surcharging only one card brand, i.e. only surcharging American Express cards but not other cards (you cannot discriminate between card brands).
- Surcharging on debit cards, prepaid cards, and government cards.
- Surcharging customers in the 4 states that do not currently allow surcharging.
- Failure to properly display notices to customers in accordance with the card network rules (the rules are different in Card Present and Card Not Present payment options)

Customer Journey

TIP:

MAINTAIN TRANSPARENCY WITH YOUR CUSTOMERS TO ELIMINATE SURPRISES IN THEIR BUYING JOURNEY

- Default your purchase setting to a mobile wallet or debit card option; the customer then chooses to pay with a credit card and pay the fee.
- Ask the customer to choose their form of payment as opposed to defaulting to a credit card option.
- If you default to a credit card option, provide a note or pop up prior to entering the card number that states a fee might be imposed.

  For example: a credit card choice might state "Credit Card – Subject to Transaction Fee," whereas a debit card option would simply state "Debit Card."
- Provide tool tip or other notifications that prominently shows there will be a credit card processing fee should the customer choose to use a credit card.
- Highlight why you are surcharging.

  For example, consider using this language: "We do not profit from this fee. We collect this fee on behalf of the credit card companies and pass it through to them. You may choose an alternate payment method such as debit card or eCheck with no fees." Customers greatly appreciate full transparency.

As any good business owner, you are likely thinking about how fee reduction options might impact your customer. These gating questions can help you decide how to move forward:

- Are credit card fees a cost of doing business for me?
- Should I bake credit card fees into my price?
- Should my low-fee non-credit card paying customers subsidize my high-fee credit card paying customers?

If you answered "No" to any of the questions above, or are unsure, use data to make decisions and consider the following.

First, think about which card fee reduction option might work best for you.

Second, consider factors that may affect your conversion rates. The more unique your product is and the more time your customer spends with you to buy your product, the more likely it is your conversion rates will remain intact.

- How easy is it to buy your products elsewhere for the same or lower price?
- How unique is your product – and the services or experiences you offer around your product - versus competitive alternatives?
- How much time does your customer invest into your buying process?
- How are your competitors reducing their fees, if at all? Note that they might be waiting for validation from you before they follow!

Third, if you're like most successful companies, test the chosen option with real customer data (read on for more on how to do this).

Fourth, think about a customer payment journey that elegantly notifies customers that you might introduce a credit card transaction fee. The key to maintaining conversion rates is making customers fully aware at or before the payment checkout stage. There are proven ways to do this - see the tip box for elegant notification ideas.

Next, read on for more strategic considerations to choose the best vendor for you.

Strategic Considerations

TIP:

WHAT IS "ZERO COST PROCESSING"?

If something sounds too good to be true…it usually is. Zero Cost Processing is no different. Here's how it really works: your provider charges you a higher flat fixed rate on credit card transactions – usually between 3.50-4.00%. You then pass that high fixed percentage rate onto your customer. It's technically zero cost to you, but your customer is bearing the higher price.

In this model, the provider is the one benefiting the most. The zero cost provider profits on the difference between the higher rate your customer is paying (3.50-4.00%) and the lower rate the zero cost provider pays to its processor (usually 2.50-3.00%). Basically, they're profiting off of you charging your customers more.

If you don't mind your customers paying those high rates, or you have a cost of processing that is above 4%, then this might be worthwhile. Otherwise, make sure to look for a better surcharging solution and/or better processing rates.

It is prudent to have clear objectives about reducing credit card fees. You'll want to calculate the estimated level of savings from reducing fees, elegantly manage your customer's checkout process, and gain buy-in from internal stakeholders involved. Seeing your objectives clearly will help you build a game plan that your team and budget can support.

Ask yourself:

How much are credit card fees costing your business annually, and what percent of total transaction volume is credit card versus cheaper debit or echeck alternatives?

For example, a $100M revenue business that transacts 60% via credit card and pays the credit card network of companies 3.5% has an opportunity to reclaim $2.1M annually by collecting transaction fees from customers and by encouraging them to use low cost / no cost alternative payment methods.

How might my payments technology system change in the future?

The payments tech landscape is evolving as fast as your business and it's likely your needs will change over time. It makes the most sense to consider a modern technology solution that is easy to install and can grow with you. If in the future, you decide to replace/upgrade your payment processing system, your surcharging system should be lifted and easily re-integrated with any new underlying system with minimal disruption.

Are you on Fixed Rate or Interchange Plus pricing?

- **Fixed Rate**: Many non-tech forward options exist for fixed rate merchants. While determining the compliant rate to surcharge is easier, complying with the myriad of regulations and legal restrictions across all of your sales is harder. Be sure your surcharging technology provider is ensuring you're compliant across all your payment channels.

- **Interchange Plus**: You benefit from much lower processing rates but only a few compliant surcharging offerings exist. That's because determining the exact compliant surcharge rate for each of the 415,000+ card types requires sophisticated technology. Fortunately, these modern technology providers are easy to find and easier to implement as they don't require a rip-and-replace of your existing payments infrastructure.

What sales channels are you using?

- **Only Card Present (Point of Sale)**
  You can compliantly implement cash discounts cheaply and easily – examples are convenience stores or gas stations.

TIP:

FULL SURCHARGING CONTROL

You – not your payment provider - should have 100% total control over your customer's experience. The best surcharging solutions provide you with Surcharging Commands – or the ability to change surcharging as you see fit.

Rules should be flexible as to:

WHEN you surcharge – for example, on order values above $X on non-promotion sale days

WHERE you surcharge – for example, on certain product lines or on certain customers

HOW you surcharge – for example, surcharge only 50% of the fees for order values between $X and $Y

- **Only Point of Sale + Limited Virtual Terminal**
  If you're on interchange plus processing, a surcharging technology solution might work best. If you're on fixed rate processing, a payment processor's fixed rate offering that provides terminal hardware and other benefits might be the best bet.

- **Only Card Not Present (Ecommerce, Mobile, and/or Virtual Terminal)**
  A modern surcharging technology solution is likely the only option available.

- **Omnichannel – Card Present + Card Not Present**
  Only a modern third-party surcharging technology solution can allow you flexibility across all your sales channels. This is also most beneficial for interchange plus processing merchants.

Do you have an international presence?

- If you have or might have international presence, a surcharging technology solution that supports these markets is likely your best bet.

- The card networks currently only allow surcharging in the United States (individual state regulators allow it in 46 states), Mexico, Australia, and New Zealand.

- Card networks plan to allow surcharging in Canada sometime in 2021.

Does the surcharging provider offer introductory, proof-of-concept trials?

- They should. The better offerings will allow you to test with limited cost and opt-out of contractual arrangements if it's not the right system for you.

Have you asked the surcharging provider for a detailed implementation plan?

- Ensure that the scope comprehensively fits your needs and integrates into your payment vendors.

- Ensure that it meets your timeframe.

- Ensure that the surcharging system supports total control over the surcharge experience – especially if you're just testing to see if it's right for you. Consider how easy it is to view features and data that help your business and customer.

The best vendors provide:

- Flexible rules to change the amount of surcharge by order value.
- Flexible rules to set either a percentage OR flat fee per-order surcharge.
- Allowing surcharging on certain product lines or product campaigns (as opposed to your entire suite of products).
- Ability to turn surcharging On/Off as you desire.
- Real-time transaction and savings data dashboards.

Who owns the decision process in your company?

- Typically, the Finance department drives this business decision.
- IT / Development or third-party integrators can estimate the time and cost to implement a solution. An API-based solution can typically be implemented in a few days, an embedded solution requiring rip-and-replace of the payment platform can take months.

Have you asked for a detailed implementation plan?

- Ensure that the scope is correct.
- Ensure that it meets your timeframe.
- Ensure that the surcharging system supports flexible rules for such capabilities as setting a maximum per-order surcharge, setting up zero on minimum surcharges on small orders, etc.

Conducting a Successful Product Trial

TIP:

ACCURATELY MEASURING CONVERSION RATES

Checkout abandonment rates are normally determined at the checkout initiation. However, the true measure of surcharging conversion impact is at the time the card number is entered and the transaction fee is shown. This is at a later stage of the checkout process and yields more accurate insights into why a customer chose to leave the cart. They could have left for a myriad of reasons unrelated to a surcharge. Your vendor should be able to provide insight as to when a customer leaves. Some other data to track includes knowing when customers switched from a credit card to a debit card or entered a credit card but never completed the transaction.

Now that you've done the internal work to implement a fee reduction system, you'll want to ensure that the system will yield the maximum benefit. Setting objective, numerical metrics will help you decide whether and how to move forward. You'll then want to weigh the trade-offs of the customer experience with the amount of savings you may earn during the trial. Your solution should offer an online interface with full control over how to run a trial, view real-time transaction data, and set your rules when you fully implement.

Steps to a Successful Trial:

STEP 1: Add a $0 transaction fee and test:
See how simply adding a "Transaction Fee" line item to your checkout page impacts conversion rates. Slowly dial up the transaction fee over at least 100 transactions to see how it might change shopping cart conversion rate behavior. Do this at your own pace with the controls that you have.

STEP 2: A/B Conversion Rate Tests:
Implement A/B tests and compare the abandonment rates across tests. Read below to learn more about how to set up an A/B test. Your vendor should also provide you with ideas on what's worked best with other merchants.

STEP 3: Full roll out and set your Surcharging Rules:
Now that you've implemented, set your rules and review conversion and abandonment rate data on a periodic basis. Ensure your solution provides easy access to data so you can quickly make decisions on how to change your surcharging rules.

Creating an A/B Test to Measure Conversion Rates:

- **Sequential A/B Test**:
  First create a baseline abandonment metric by measuring shopping cart checkout abandonment rates at the time when the customer enters her/his credit card number without a surcharge. This sequential A/B test can show estimated incremental abandonment due to introduction of the transaction fee.

- **Parallel A/B Test**:
  A more accurate but somewhat more complicated A/B test will compare abandonment rates over traffic split between 2 checkout pages - one with and one without the transaction fee shown. A lighter weight alternative is to run a test with and without surcharging on a couple of similar product lines which can provide important insights.

- **How many transactions to test**:
  Ideally, you'd run the tests over hundreds to several thousand transactions. Fortunately, this might be just a few days or weeks depending on your transaction volume.

- **Which sales channel to start**:
  Many companies start with a single product line which is often the easiest channel to integrate and obtain/analyze data. Most companies start with their eCommerce channel. Your surcharging provider should be able to help guide you to the easiest path forward.

Conclusion

This guide walks you through the Surcharging space and highlights why, in many cases, credit card fees should NOT be borne by merchants as a cost of doing business. Surcharging provides immediate, measurable, and significant positive ROI enabling you to reinvest into other parts of your business.

With the right surcharging platform, like InterPayments, you can recover up to 100% of your credit card processing fees with no disruption to the customer experience and without replacing your current payment or e-commerce platforms. InterPayments offers you total control over when, where, who, and how you surcharge so it is fully customized to your specific business needs.

If you want to learn more about what solution makes the most sense for your business, contact us at **sales@interpayments.com**.

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