

What is your rate?" This is the most commonly asked question by businesses looking to accept credit cards or change providers. However, the more important question that merchants should be asking is, "How much will it cost me to process credit cards with you?"

Price structure and overall cost is significantly more important than a rate quote.

"Whether you choose to use our services or not, we encourage you to take a moment to review this document; it exposes unfavorable pricing structures used by most Merchant Account Providers.

Traditionally, a simple, easy-to-reconcile merchant services rate structure or True Pricing was reserved for large businesses with high leverage. JBD Consulting affords its clients the ability to level the playing field by granting them access to a True Pricing merchant services model, and in the process take the mystery out of the cost of card acceptance.

If you were asked what it costs your business to accept credit cards, odds are you would not be able to give an accurate figure. All of the fees associated with processing credit cards can be very confusing. To make matters worse, Merchant Account Providers profit from making fees difficult to understand; it enables them to charge more.

Business owners are frequently puzzled by service rates and fees. They wonder:

1. Why am I charged different amounts depending on the type of card used.
2. Who keeps the 1.5% to 3.0% of my hard-earned sales that are siphoned away as "surcharges" and "fees"?

The answer to these questions revolves around "Interchange" and "Dues and Assessments".

INTERCHANGE

(What issuing banks collect)

Interchange is a fee that Visa and MasterCard require merchants to pay card-issuing banks (e.g. Capital One, Citibank, Chase, etc.) for accepting their credit and debit cards. It is comprised of a series of a series of over a hundred different rate categories, containing requirements which must be satisfied in order for a transaction to qualify for a specific rate.

The rates are set collectively by banks that have a vested interest in Visa and MasterCard since many issue both credit and debit cards. The bulk of interchange fees are paid to issuing banks and are collected from merchants via Merchant Account Providers. The fees are deducted after merchants submit transactions for processing.

What criteria are used to determine interchange rates? Interchange rates are established at different levels for a variety of reasons but are based primarily on the level of risk involved in the transaction.

DUES & ASSESSMENTS

(What Visa and MasterCard collect)

Factors that effect interchange rates include:

- The type of card used (rewards or standard)
- The type of transaction (credit or debit)
- How the transaction was initiated (card-present or card-not-present)

Dues and assessments are membership fees paid by financial institutions to Visa and MasterCard to finance their roles in the following:

- Setting rules
- Establishing pricing
- Marketing/branding
- Network operations
- Technology development, fraud management, and much more

Dues and assessments have no categories, rules, or criteria. They are simply a set percentage of the amount of the sale and are the same for every transaction processed. As of March 2008, Visa's dues and assessments fee is .0925% of the transaction while MasterCard's is .0950%.

PRICING STRUCTURE SCHEMES

Bucket Pricing

Merchant Account Providers traditionally charge for transactions using tiered pricing schemes commonly referred to as "bucket pricing". In bucket pricing, the 100 plus levels of interchange are separated into "buckets" commonly labeled qualified, mid-qualified and non-qualified.

Transactions (where consumer credit and debit cards are swiped) will be charged the base rate (lowest fee) and likely hit the "qualified" bucket. Higher-rate transactions commonly referred to as "downgrades" will be charged more and labeled mid-qualified or non-qualified.

Problems with Bucket Pricing Schemes

Merchant Account Providers use their own discretion to determine what buckets the 100 plus

categories of interchange will be separated into. And, it is often not defined in a merchant's agreement with the Merchant Account Provider. Since the criteria for this decision is proprietary, inconsistencies are common between providers. This makes it nearly impossible for merchants to accurately compare pricing from one provider to the next. Transactions that would land in the mid-qualified bucket with Provider A, may land in the non-qualified bucket with Provider B.

Additionally, Visa and MasterCard make adjustments to interchange categories once or twice a year. These increases usually affect only one or two interchange rate categories in a bucket.

The increases negatively affect businesses by raising the cost of card acceptance and give merchant account providers an opportunity to raise rates on entire buckets. Finally, under bucket pricing each bucket is priced high enough to cover the cost of the transaction type with the highest actual interchange fee. Consequently, merchants pay higher fees for all other interchange types in the same bucket.

A View Into a Mid-Qualified Bucket

Merchant Account Providers using bucket pricing generally place the transaction types shown in the table below into a mid-qualified bucket. Let's examine the actual interchange charges for a \$100 purchase across these transaction types and compare the actual costs to the price charged to the merchant.

Business Card Electronic Interchange Rate Processing			
Purchase Amount	Interchange	Dues & Assessments	Actual Processing Cost
\$100.00 X	(2.40% + \$0.10)	+ .0925%	= \$2.59

A customer initiates a purchase that qualifies for the Business Card Electronic interchange category of (2.40% + \$0.10) + .0925%.

This rate is also the most expensive in the bucket with an actual processing cost of \$2.59 for the \$100 transaction. Because Merchant Account Providers using bucket pricing schemes assess the same fee for all transactions in the mid-qualified bucket, (2.65% + \$.25), the merchant is charged \$2.90 to process the transaction. The Merchant Account Provider makes a profit of \$0.31 on this transaction.

CPS Retail Key Entry – Check Card Interchange Rate Processing Formula			
Purchase Amount	Interchange	Dues & Assessments	Actual Processing Cost
\$100.00 X	(1.60% + \$0.15)	+ .0925%	= \$1.84

Had the customer's transaction qualified for the least expensive rate in the bucket,

CPS Retail Key Entry – Check, the actual processing cost of the \$100 transaction would have been (1.60% + \$0.15) + .0925% or \$1.84. However, the merchant would have still paid the

bucket rate (2.65% + \$0.25) and been charged \$2.90. In this example, the Merchant Account Provider would profit \$1.06 on the transaction!

Traditional Bucket Pricing			Interchange + Dues & Assessments (I/A)		
Transaction Type	Mid-Qualified Bucket Price	Total Merchant cost on \$100.00 Transaction	Interchange	Dues and Assessments	I/A Cost on \$100.00 Transaction
CPS Retail Key Entry - Check	2.65% + \$.25	\$2.90	1.60% + \$0.15	0.0925%	\$1.84
CPS Card Not Present	2.65% + \$.25	\$2.90	1.85% + \$0.10	0.0925%	\$1.99
EIRF Check	2.65% + \$.25	\$2.90	1.75% + \$0.20	0.0925%	\$2.04
Signature Rewards 2	2.65% + \$.25	\$2.90	1.90% + \$0.10	0.0925%	\$2.09
Commercial Card Non T&E Level 2	2.65% + \$.25	\$2.90	2.00% + \$0.10	0.0925%	\$2.19
Commercial Card - B2B	2.65% + \$.25	\$2.90	2.10% + \$0.10	0.0925%	\$2.29
Corp. Card Electronic	2.65% + \$.25	\$2.90	2.20% + \$0.10	0.0925%	\$2.39
Business Card Electronic	2.65% + \$.25	\$2.90	2.40% + \$0.10	0.0925%	\$2.59

True Pricing

There is an alternative to bucket pricing available through Element Payment Services.

True Pricing or “pass through pricing” is the answer to unveiling the mystery around card acceptance costs. Under this unique rate structure, JBD Consulting clearly identifies actual Visa and MasterCard fees and plainly shows our exact mark-up (profit).

True Pricing is the most transparent way to charge for processing credit cards.

The costs of payment processing are revealed, easy to understand, and will save your business money.

Under the True Pricing billing structure, the actual Visa and MasterCard charges for processing are passed through to the merchant, without mark-up as

previously mentioned. When Visa and MasterCard raise interchange rates, only the categories that are affected are increased, not an entire “bucket” containing the many interchange categories that may not have been impacted.



How Are Rates Determined With True Pricing?

Rates are based on a merchant's Visa and MasterCard average monthly dollar volume and average ticket (sale amount). Using these variables, the True Pricing rate is determined upfront at the time a merchant signs a contract for processing services and remains effective throughout the term of the agreement.

Price Comparison Between Bucket Pricing and True Pricing

In the previous example, we compared what a merchant would pay to process a \$100 purchase landing in the mid-qualified bucket to the actual cost of processing the transaction. Now, we'll compare True Pricing to bucket pricing using the same transaction criteria.

The table below shows how the merchant on a True Pricing model would pay \$0.61 less to process the same Visa key-entered check card than a merchant on a bucket pricing model.

	Bucket Pricing	True Pricing
Transaction Type	Key-entered Visa Check Card	Key-entered Visa Check Card
Sale Amount	\$100.00	\$100.00
Interchange Rate	N/A	1.60% + \$0.15
Dues and Assessments	N/A	.0925%
Processing Fee	2.65% + \$.25	35% + \$0.10
Math	[\$100.00 x 2.65%] + \$0.25	\$100.00 x [(.35% + \$0.10) + (1.60% + \$0.15) + .0925%]
Cost of Merchant	\$2.90	\$2.29
True Pricing Savings		\$0.61

Additional Comparisons: Mid-Qualified Bucket Pricing vs. True Pricing

(Each transaction is based on a \$100 Visa purchase assigned to a mid-qualified bucket)

The bucket below further illustrates the advantages of True Pricing. In this snapshot, merchants on True Pricing save on average \$0.32 per transaction.

When you factor in annual processing volume, it's easy to see how True Pricing can result in significant savings for merchants.

SUMMARY

	Traditional Bucket Pricing		Interchange + Dues & Assessments (I/A)			True Pricing (I/A + True Pricing Charge)		Comparison
Transaction Type	Mid-Qualified Bucket Price	Total Merchant cost on \$100.00 Transaction	Interchange	Dues and Assessments	I/A Cost on \$100.00 Transaction	True Pricing Charge	True Pricing Cost on \$100.00 Transaction	Merchant Savings
CPS Retail Key Entry - Check	2.65% + \$.25	\$2.90	1.60% + \$0.15	0.0925%	\$1.84	.30% + \$.10	\$2.24	\$0.66
CPS Card Not Present	2.65% + \$.25	\$2.90	1.85% + \$0.10	0.0925%	\$1.99	.30% + \$.10	\$2.39	\$0.51
EIRF Check	2.65% + \$.25	\$2.90	1.75% + \$0.20	0.0925%	\$2.04	.30% + \$.10	\$2.44	\$0.46
Signature Rewards 2	2.65% + \$.25	\$2.90	1.90% + \$0.10	0.0925%	\$2.09	.30% + \$.10	\$2.49	\$0.41
Commercial Card Non T&E Level 2	2.65% + \$.25	\$2.90	2.00% + \$0.10	0.0925%	\$2.19	.30% + \$.10	\$2.59	\$0.31
Commercial Card - B2B	2.65% + \$.25	\$2.90	2.10% + \$0.10	0.0925%	\$2.29	.30% + \$.10	\$2.69	\$0.21
Corp. Card Electronic	2.65% + \$.25	\$2.90	2.20% + \$0.10	0.0925%	\$2.39	.30% + \$.10	\$2.79	\$0.11
Business Card Electronic	2.65% + \$.25	\$2.90	2.40% + \$0.10	0.0925%	\$2.59	30% + \$.10	\$2.99	\$(0.09)
Average Merchant Savings with True Pricing								\$0.32

In summary, with the True Pricing structure each and every interchange category carries a consistent margin providing the business with:

- The most competitive pricing
- Lowest processing costs
- A set, disclosed and consistent profit margin
- An understanding of the exact impact from interchange increases/decreases.

For more direct examples of how True Pricing can result in savings for you, contact us today at (646) 926-6733, or info@jbdconsulting.us, to become a client and take advantage of True Pricing Programs and reduce your costs of card acceptance.

