

Memoirs of a Merchant Account

By Kelly E. Nelson

A merchant statement looks a computer science project as soon as you open it up. Too many decimals, dollars, formats, percentages, basis points, fees and structure can be intimidating to the point of boredom.

Controllers use the monthly merchant statement to reconcile and then that's about it. Only a select few understand how pricing really works: Interchange; Assessment; Markup, or how Qualifications (aka Downgrades) work. They learn a little during the Merchant sales pitch but once the deal's done and the account is activated it's on auto-pilot and there are bigger fish to fry.

And there are literally thousands of questions - gone unanswered:

- Why is the merchant statement so hard to figure out?
- How do I know if I'm even supposed to be paying a particular fee?
- Why is my effective rate so much higher than my base rate?
- Why does only 10%- 30% of my card traffic come through at the base rate?
- Which transactions are the downgraded transactions I can fix?
- Is it normal to be charged again when a customer returns something?
- Why do I pay the same rate for a debit card as a regular credit card?
- Why is my key entered rate a full percent higher than my swiped rate?
- Why do my transactions go to "non-qual" even when I follow all the prompts on my terminal/virtual terminal?

And, if you called in asked these questions you'd be treated to the 19 year old operator's scripted double speak. But today, instead of getting all upset, we thought we'd take a more humorous view of all the little things that can run up your merchant bill.

“Actual” Case Studies

“Linda Lowrise”

The merchant insisted that she had the lowest rates she’s ever seen. “1.67 + .20 cents per transaction”, she said. I smiled and offered “but what is your overall *effective rate*? The effective rate is the bottom line % you paid at the end of the month for your services. Take the total Visa/MC/Disc volume (no Amex, no PIN debit) and divide your total fees into it, then press % and tell me what you get.” She says “3.54%”. “So you have a lot of ‘mid-qual and non-qual’ showing on your statement, right?” --“How did you know that?!”

Just go to Visa’s website and look up “Interchange Reimbursement Fees” you’ll see that there is no such thing as “mid-qual” and “non-qual”. These are categories invented by banks (all banks are Visa/MC middleman) specifically to hide fees, and at least 20% of your fees are pure fluff. The 1.67% + .20 rate is a “leader” rate to get a merchant to bite. The truth is that in most typical environments fewer than 30% of the transactions come through at the base rate, the other 70%+ are “surcharged card types” (Rewards, Commercial Cards, CNP).

In an unregulated Industry, the bank/provider bought these surcharged card types at cost from Visa/MC, marked them up .30 to .90 basis points and *then* put them on the statement. A surcharge on top of a surcharge = equals pure profit to your bank/provider. Reward cards and Keyed transactions are thrown into the “mid-qual” bucket, while Commercial Cards and Downgrades are thrown into the “non-qual” bucket. Debit Cards are often charged at the Base Rate, when they should cost less than 1% in most cases.

I then asked a very important question: “What is your average ticket?” (It happened to be around 50 bucks) A .20 cent transaction fee would then equate to .40 basis points – add that to the 1.67% and what do you get? “2.07%” – add on all the mid qual and non qual fluff and she was at 3.54%

She had a lot of “non-qual” transactions, particularly on Visa, and didn’t do a lot of B2B traffic so they had to be Downgrades. “Are you providing a street number and Zip code with your keyed transactions?” She said that the terminal never asked her for that...

Her provider deliberately programmed the terminal to not prompt for the Address Verification, knowing the transactions would downgrade, and thus make them more money. How is a merchant supposed to know that? (Inset laugh track here.)

“Bobby Bookmaker”

“Bobby” was the Controller at a seller of wholesale auto parts. Warehouse on the premises. Like most, he insisted he “was very happy with his current provider”.

“Why” I asked. “We get paid on our transactions and we rarely have any issues.”

“What is your base rate?” I asked. “2.35 + .10 cents a transaction”. And then “What’s your effective rate?” I showed him how to calculate it and he said “1.84%”. Effective lower than base = Gong. I knew we had a great prospect right then, as some processors to put “Total Charges” on the front of the statement, but there are more charges on the back page - the opposite of “full disclosure”. The shell games they play *your* money. In an unregulated Industry you really have to trust your Rep/Provider - and roughly 80% of them are crooked - although some may not be aware of it.

Bobby was being charged “Daily Discount”, meaning they take their base fees out *nightly* (impossible to reconcile) and then they take the surcharges out in a lump sum at the end of the month, thus, his posted rate of “total charges” was for *just for the surcharges*. They didn’t bother to post the base rate charges on the top of the bill. I said “add the 1.84% to the 2.35% and you will see that your effective rate is actually 4.19%”. He sat there, stunned, and that was just the beginning. (Inset laugh track here.)

“You have a lot of downgrades, don’t you” I offered. “Yes, it’s just the way we do business, even when we add the address verification we still get downgraded.” “That’s

because you are in a Book and Ship environment, and when you are doing 'pre-authorizations' you need to follow 3 strict guidelines to qualify at the lowest Interchange:

- 1) The pre-auth must be higher than your final amount.
- 2) The product must be shipped within 7 days.
- 3) The final adjusted amount must match exactly.

"No one ever told us that". He said. I replied, "That alone will save you 10%-20%, or about 600.00/mo.

"Now tell me about your chargebacks on the Ecomm piece." "It's weird, most they say that they were never a customer." "Is your legal name is different from your DBA?" I asked. "So when your customer gets their bill they don't see "Bobby's Auto Parts" they see "McGee's, Inc". Businesses need a knowledgeable Rep who pays attention to the details. Chargebacks, handled.

I noticed he had about 5k in credits/returns on his statement. "Did you know this is a revenue stream for your processor? And then on top of that they are charging you for each return, meaning you're paying about 8% for a product you never really sold. We'll actually pay you back Interchange on credits/returns."

"Too good to be true." he said. I retorted "Either that or your current processor should be behind bars, wearing one of those striped suits." It's called 'Net Billing' and what they're doing is the old 'double dip'. Unfortunately in our Industry this can be "par". It's unregulated except for debit cards. (Inset laugh track here.)

"Don't feel bad, Bobby. Trying to find an honest provider is like trying to find an honest mechanic. They exist, but it takes a lot of trial and error."

Tip of the Iceberg

As a long-time key player at a large merchant acquirer I have seen it all. From \$65,000.00 early termination fees to 501(C)(3) Non-Profits being scammed and set up as MOTO accounts. It's simple, most processors have a "look how much we can make" approach when they should have a "look how much we can save you" approach.

The Solution

Knowledge and honesty. At Emerald World, no merchant comes on board without a thorough education on pricing and rate structure, as all of our Interchange rates mirror what's posted on Visa and MasterCard's websites. We proactively contact our merchants to help them manage their downgrades, so they can qualify for lower Interchange. This is the true definition of "service" in our Industry, and it is truly a lost art.

Come see us today at <https://www.emeraldworldet.com>. We'll perform a complimentary review of a recent merchant statement as well as an evaluation your current processing solution, so your money can be moved in the most efficient and economical way possible. A 20% reduction in monthly fees is always the target, why not you?

Thanks for reading.

Kelly E. Nelson

President

Emerald World ET, Inc

Nationwide: 323-512-7000

<https://www.emeraldworldet.com>