

# WHAT TO WATCH OUT FOR WHEN LOOKING FOR MERCHANT SERVICES

(The Ugly Truth About Merchant Services)

**MISINFORMATION:** With over 400 (As of April 2011) different tiers of *Interchange Pricing*, accepting credit cards can be complicated. Rates vary based on card type and how the credit card is processed. So how do you know if you are getting the right quote from different companies? The bottom line is: **you don't**. Educating yourself on the basics of the industry can and will save you money!

**LONG TERM CONTRACTS:** Merchant services agreements are contracts and they contain a specific amount of time that you are obligated to continue processing credit cards through the processor. Contracts range from month to month agreements to agreements that last as long as 5 years (we've even seen never-ending contracts ☹). The industry average is 3 years. Look for companies that offer a month to month agreement. While they are more difficult to find, they are worth the effort. Companies that do offer a month to month agreement realize that poor service or exorbitant rates will lose business immediately, so they tend to offer a better combination of pricing and service on a consistent basis. Should you elect to use a processor with a long term contract, know what you are signing and the penalties associated with leaving. Even if a sales representative tells you that there is no contract- **READ** the fine print to verify! Keep in mind that rate increases, poor service & bad information are usually not strong enough reasons to exit a contract without penalty. Credit card processing companies have access to your checking account and a legal right to debit any fees (cancellation fees included) so be careful **BEFORE** you sign a long term agreement!

**LEASING:** Most leases are 4 year, non cancellable leases and they usually do not make sense for the small purchase price of a credit card terminal. Leasing does not imply any additional protection for the credit card equipment you are purchasing- regardless of the sales rep's claims. Beware of 'sugar coated' leasing prices or inflated prices that make a lease more attractive. Do the math (usually 52.8 payments- when you include the usual 10% buyout that is a part of most leases- times the monthly payment). Once you have calculated the real price, find out if your state adds any additional yearly fees because you are leasing- most states do. If everything seems OK, take one more step- check out the pricing for the terminal you are considering leasing, with several different sources. In most cases, you will find that it does not make sense to lease a credit card terminal.

**UNETHICAL/UNEDUCATED SALES REPRESENTATIVES:** Because the credit card processing industry is complicated, it is not uncommon to run across sales reps who have not properly educated themselves to be of service to you. An uneducated or unethical sales rep is dangerous. They may quote you rates that do not apply to the way you process cards. They may fail to mention the term of the agreement or the cancellation fees. They may seem very nice, however if they are uneducated or (worse) unethical, they can talk you into signing an agreement that does not fit the needs of your business. Ask yourself how you heard about the processing company. Were you referred by a business friend or a trusted financial partner? If not, do yourself a favor and spend the necessary time to double check the offers you are being presented with.

**INTRODUCTORY/TEASER RATES:** Remember the saying ‘If it sounds too good to be true.....’? Well the credit card processing industry is no different. All credit card processing companies work from the same basic pricing structure called *Interchange*. The real cost is readily available online, for all to see. Having a good understanding of the various tiers of pricing as it relates to the way you accept credit cards, is a great way to insulate yourself against companies and sales representatives that lack integrity. Since no one ‘likes’ to pay for the ability to accept credit cards, many business owners fall prey to companies who offer introductory rates or who simply quote rates that do not apply to the way you process your transactions. Educate yourself and you will be able to recognize when someone is trying to take advantage of you!

**OVERSELLING:** The credit card processing industry has a lousy reputation and overselling is a large part of the problem. Most businesses do not need the latest and greatest in credit card technology. Many merchants will not benefit by investing in wireless equipment and most existing businesses can utilize their old equipment for many years to come. When a sales representative is focused solely on how much \$\$ they can put in their pocket, it is possible that you may not be getting the best advice as it relates to your business. Ask if your equipment can be reprogrammed (there are some models that are proprietary and can only be used with certain processing companies). Do not let corrupt sales people tell you that your terminal is ‘obsolete’- double check those types of claims before changing equipment (the internet is a great resource). Check wireless coverage in the area if you plan to use wireless equipment. Consider the safety and security of smart phone & iPad applications and how they work with the way you will be accepting cards. It pays not to be in a hurry *but if you are-* make sure you do your homework. The additional time you spend to make sure you are getting set up with the right equipment can literally save you hundreds of dollars and hours of frustration.

**INSTALLATION:** Traditionally, the merchant services industry conducts most of its business using the phone, fax and mail. In many cases, you may find that you receive a credit card terminal in the mail with nothing more than a few pages designed to ‘help’ you use the machine. Even having a local representative deliver the terminal for you will not always insure you are trained to utilize your card acceptance system in the most cost effective way. Make sure that the company you select (local or long distance) is committed to your education. Before signing any agreements, ask for an overview of the topics you will be trained on and any ongoing training that is offered. The basic installation should include information on swiped, keyed and special card types. You should receive information on debiting and depositing funds to your account as well as information that can help you to prevent chargebacks. Part of selecting an excellent fit for your business is making sure you have been given the proper tools right out of the gate so make sure the install is a very strong part of the process!

**LONG TERM FOLLOW UP:** It is not enough to have someone drop off or deliver a terminal to you. The credit card processing industry changes constantly. The card associations review the interchange rates every April and every October- so every 6 months, there is new information! Make sure you select a processing company that is committed to long term follow up with your company. As your business grows, you may need additional training and information related to credit card acceptance. Many companies are very interested in getting your business and then you never hear from them gain! What if you need help? Make sure the company you choose is reputable and is dedicated to servicing your account for the long term.

**PCI/ DSS SECURITY STANDARDS:** PCI DSS stands for *Payment Card Industry Data Security Standard*. It was developed by the major credit card companies as a guideline to help organizations that process card payments prevent credit card fraud, hacking and various other security vulnerabilities and threats. Any company processing, storing, or transmitting payment card data must be PCI DSS compliant or risk losing their ability to process credit card payments and being audited and/or fined. Merchants and payment card service providers must validate their compliance annually. This validation gets conducted by auditors - i.e. persons who are the PCI DSS Qualified Security Assessors (QSAs). Although individuals receive QSA status reports, compliance can only be signed off by an individual QSA on behalf of a PCI council approved consultancy. Smaller companies, processing fewer than about 80,000 transactions a year, are allowed to perform a self-assessment questionnaire. All businesses who store, transmit or process credit card data are required to follow the PCI DSS. **In other words - if you accept credit cards – you have to be PCI compliant.** Fees for this service can range from nothing to in excess of hundreds of dollars per year. Processors who are charging nothing are typically not monitoring the completion of the required PCI forms- this can result in heavy fines and it can place you and your business at tremendous financial risk. Processors charging hundreds of dollars per year are using the security mandates as a way to increase profit on the accounts they service. Fees can include the costly scans that are required if your assessment identifies any challenges or you process using a high speed connection although some processing companies charge additional fees for the scan process- make sure you know what your fee includes! **NON COMPLIANCE** fees are another place where you can be overcharged! A nominal fee for not completing the required form within a specified time frame should be viewed as a nuisance- a charge to compel you to get the form completed. Larger Non Compliance Fees are becoming fairly typical- get your assessment filled out so you do not have to pay any Non Compliance fees.

*Security is important and it has caused the industry to add more fees to the cost of accepting credit cards. Proper handling of card data and making sure that you are protecting your customers' information is critical. Often smaller shops have proven ill-prepared for the complexities of safeguarding credit-card information. Since 2005, more than 80% of the instances of unauthorized access to card data have involved small merchants, according to Visa USA Inc., the largest payment-card network. These businesses account for 85% of the seven million locations nationwide that accept plastic, according to Visa.*

Visit this site for more info:

[https://www.pcisecuritystandards.org/pdfs/pciscc\\_ten\\_common\\_myths.pdf](https://www.pcisecuritystandards.org/pdfs/pciscc_ten_common_myths.pdf)

PCI Security Standards Website:

[https://www.pcisecuritystandards.org/security\\_standards/pci\\_dss.shtml](https://www.pcisecuritystandards.org/security_standards/pci_dss.shtml)

**REGULATORY/IRS:** The government now requires that all processors report merchant account activity to the government. This requirement has cause most processing companies to charge a fee to cover the expense of complying with the government mandate. Make sure the fees are disclosed and modest.

**Most businesses need to accept credit cards in today's economy and most see increased business by accepting plastic. Take care that you choose a company that you can depend on for honest information and ongoing service.**