

# The Profitable Dentist

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## Credit Card Processing 101

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I've been involved in the credit card processing industry since 1997. Then, as now, 90% of merchants have no idea how credit card processing works. This is not the fault of the merchants. Credit card processing companies, for the most part, have worked to keep merchants unaware so that they may overcharge. This article will explain the math of credit card processing.

Everybody in credit card processing has the same costs. It's called Interchange, Dues & Assessments. Every time you use your credit card the bank that gave you that card gets back a percentage and transaction fee. Every time you use your credit card the card, brand (Visa™, MasterCard™, Discover™) gets back a percentage and transaction fee. When you add these two

together you get the base cost for credit card processing. The prices are based on risk. The low risk checkcard is your lowest rate. The high risk business card is your highest rate, due to the fact that many businesses fail after the first year. There are 12 pages of single line type listing all of the rates for the different credit cards. When a company quotes you 1.49%, which of these cards will qualify at that rate? The short answer is regular non-rewards credit cards, which people don't want because everyone wants the rewards, and checkcards may qualify while the other card types will be charged at a rate that will maximize profitability. The interchange for regulated checkcards is .18% and 24¢. Why would you pay someone 1.49% for this same card? Obviously you wouldn't, but you do if you don't know that you have a choice. If you're using a PIN pad and having your customer enter their PIN number when taking checkcards, you're being overcharged.

The best way to determine your cost is by taking the total amount of your fees and dividing it by the total processing volume. This is called the effective rate which means what you're actually being charged. For example: If you were charged \$300 in fees and took \$10,000 in credit cards, your effective rate would be 3.0%. Keep in mind that if you're being funded directly by American Express you need to deduct that volume from your total sales volume as they are charging you fees separately. Plug this formula in to your most recent statement and see where you stand. For reference, the interchange, dues & assessments on MasterCard WorldCard™ is 1.90% and 12¢. This qualifies as a rewards card on most merchant's statements, or may be placed in your mid or non qualified category. No one takes only rewards cards. This is why on an interchange plus program your effective rate should be closer to or under 2% rather than 3% or more.

For a real world example, I had a dentist call me and tell me that he has a 1.25% rate given to him by his dental software and asked if I could save him money. I showed the dentist that his effective rate was 5.2%. The 1.25% was a red herring. Based on this doctor's \$200,000 a month volume, we are now saving him approximately \$5-6,000 a month. This is why your effective rate is the true cost of taking credit cards.

One of the many ways to know if you're being treated right by your processing company is by seeing what happens when you manually key in a credit card. This is generally due to phone payments. The rules say to get the best rate on keyed in cards you must enter the numerical part of the customer's address, their zip code and the last 4 digits of the customer's card. If you don't do all three of these, there is a .50% penalty. Most companies don't set their merchants up to ask all three necessary

questions, as there is a higher profit potential by setting you up to do this incorrectly. If your company does not have your system set up to answer all three of these questions, you're being willfully overcharged.

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