



Summit Strategies Educational Brief:

Common Processing Pricing

The Three Most Common Pricing Plans

Make an informed decision when selecting a merchant processing vendor.

In Our Examples Below Let's Use a Visa Rewards Type II Card
The Interchange Rate is 1.95% and \$.10 per transaction.

1) Interchange Plus Pricing



This is the fairest, most transparent and least expensive pricing model in the industry. It is the only pricing Summit Strategies offers to its clients for that reason.

With Interchange Plus pricing, the Interchange fees (base cost of processing) are passed directly through to the merchant, as is done with any pricing plan, but are fully disclosed with Interchange Plus pricing. The processor then adds a flat margin on top of Interchange called basis points as well as a per authorization fee. By offering a constant margin, this allows merchant service providers to price their accounts fairly and the merchant knows their processing fee is always relative to the Interchange rate for the specific card that they accept. It's crystal clear.

Unfortunately, many merchant service providers **don't disclose the Interchange rates, although they are public on the Visa and MasterCard websites**. Instead, they only disclose the rate that they assess – meaning there is a lot of incentive to overcharge for services.

If you can't see the Interchange fee for each card you accept on your statement, then you have no basis by which to know if the processor is charging you fairly. It's unfortunate, but some providers have tarnished the reputation of the industry by having a lack of integrity, charging egregious fees, encouraging equipment leasing contracts and in general, having a predatory mindset toward smaller merchants.

Need to Know: Regulated Debit Interchange Rates are Extremely Low:

The Durbin Amendment was signed into law by President Obama allowing merchants, that are **only on Interchange Plus pricing**, to take advantage of the new low regulated debit card Interchange fee of only .05% and \$.22 per transaction, which can save you money on every regulated debit card you accept as shown in the example below.

Interchange Plus Pricing Example:

In this example, the merchant service provider uses a profit margin of 10 basis points over Interchange plus \$.10 per authorization. (100 basis points = 1%. 10 basis points is 1/10 of 1%, represented as 0.10%). The processor is only making a 1/10 of 1% profit per transaction.

How much will you pay on a \$100 sale accepting a Visa Regulated Debit Card?

Visa Regulated Debit Interchange	0.05% + \$0.22/Trans
Assessment Fees	0.13%
Processor Margin	0.10% + \$0.10/Auth
Total Fees (per \$100 sale)	\$0.28 + \$0.32 = \$0.60

How much will you pay on a \$100 sale accepting a Visa Rewards II Card?

Visa Rewards II Interchange	1.95% + \$0.10/Trans
Assessment Fees	0.13%
Processor Margin	0.10% + \$0.10/Auth
Total Fees (per \$100 sale)	\$2.18 + \$0.20 = \$2.38

2) Tiered or Multi-Tiered Pricing



Tier pricing is one of the most common pricing methods in the industry, but also benefits the processor and not the merchant. With Tiered pricing, the processor groups the hundreds of Interchange categories into three buckets labeled Qualified, Mid-Qualified, and Non-Qualified. Each has a different rate subjectively assigned by the merchant service provider.

This form of pricing does not disclose the underlying interchange rates — which incentivizes merchant service providers to overcharge their merchants. If you're on tiered pricing, it doesn't necessarily mean that you're getting an unfair deal. It just means that it's harder for you to distinguish how much you are paying over the Interchange Rate. We

strongly advocate that the merchant should be able to clearly see the Interchange portion and associated fees on their statement to honestly present an accurate picture.

A representative 3-tier pricing model would look similar to this:

Qualified Rate = 1.50%

Mid-Qualified Rate = 2.50%

Non-Qualified Rate = 3.50%

Most providers will offer a very low “Qualified” rate. In our model, let's choose 1.50%. What the service provider is saying is that a certain number of card types will “qualify” for the low rate. What they are **NOT** saying is that most cards will **not qualify** for their advertised rate, but you make the assumption you are receiving a very low processing rate of 1.50%, when in actuality you are paying the higher mid and non-qualified rates for most transactions. There are numerous reasons for cards not to qualify including whether they are card not present, rewards cards or most cards will simply not qualify due to their underlying higher interchange rate. The provider who sets the qualified rate **also chooses which cards qualify and can not clearly tell you**. There are no universal “qualified”, “mid-qualified” or “non-qualified” cards. It's entirely within the provider's discretion and therefore a non-transparent pricing method.

Tiered Pricing Example:

The Interchange Rate for the Visa Rewards type II card is 1.95%, which is higher than the Qualified Rate of 1.50% so it would fall into the Mid-Qualified rate bucket of 2.50%. The difference between the Interchange rate of 1.95% and 2.50% is .55% or a 55 basis point profit margin for the processor versus the 10 basis point profit margin in the Interchange Plus example above.

3) Flat Rate Pricing

1.69% Per Swipe

Visa, MasterCard, Discover, & Amex

Flat rate pricing appears to be a very easy and straightforward way to price a merchant. The processor will set one flat rate for all card types that you accept. However, we know that every card type has a specific Interchange Rate.

Flat Rate Pricing Example:

One example is PayPal's retail rate, which is 3.50% and \$.30 per transaction and Square's rate is 2.75%. A one size fits all card-type plan. Visa Rewards Type II has an Interchange Rate of 1.95%. The difference is the profit PayPal and Square would make if this type card was used in a transaction.

It gets worse if a Regulated Debit card is used with an Interchange Rate of 0.05%! Now that is not fair pricing.

Outside of the traditional flat rate providers, a merchant services provider may tell you their rate is only 1.69%, which sounds very enticing and you sign on. In our example, the Visa Rewards II card has an Interchange Rate higher than the 1.69% offered, therefore that card would **not qualify** and the merchant would be charged a **downgrade**, which could be as high as 1.50% on top of the 1.69%. A downgrade is an add-on percentage rate for non-qualified cards. The effective rate would then be 1.69% + 1.50% or 3.19%. Downgrades are not clearly highlighted on your statement and occur frequently with this type of program so you more often end up paying a much higher rate without realizing. **Flat Rate pricing is the least transparent and, often, the most expensive plan for the merchant.** It appears to be a great low-rate deal until you add-on the downgrades that were charged and you have the "aha moment."

Contact Us:

Please contact Andrew Nadler at 240-821-6900 (option 3) or anadler@summit-strategies.com for a detailed analysis of your current pricing structure to absolutely ensure that you are on the plan that makes the most sense for your business or organization.