

PayStand's Guide to Understanding Your Merchant Statement



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Introduction

Credit cards are currently how commerce gets done—on the Internet, in brick-and-mortar businesses, and even person-to-person. We've inherited a system that is unilaterally accepted, but offers very little choice to merchants. Over time it's gotten more efficient, but there are many players and layers to these transactions that are important for you to be aware of in an effort to mitigate fees.

The advent of “all-in-one” products for accepting payments on your Web site, at the point-of-sale, and on mobile devices offers merchants greater convenience, but makes it harder to comparison shop on the basis of rates alone. Despite the seemingly low rates being advertised by new entrants in the payment space, in reality all of them are operating as a service layer on top of the non-negotiable fees charged by the credit card industry. In this guide, we'll take a closer look at how these fees get calculated, so you can be empowered to get the best deal for your business.



The owners of **ABeanToGo.com**: Keeping transaction costs low is paramount with their high cost of goods (coffee beans)



How Conventional Credit Card Processing Works

When you signed up for your merchant account, you may have dealt directly with a salesperson and signed a contract, or in the case of Web ecommerce services, clicked through terms of service that few people read or are able to understand. But buried in these merchant agreements are terms that were dictated by the various banks, processors, and underwriters operating behind the scenes, and designed to protect their interests, not yours. Often, the full details of these contracts aren't even revealed to you until you sign an "application," in which you are forced to accept the terms in advance.

So when you sign a merchant agreement, who are you actually making an agreement with? There are four parties to every merchant agreement:

- The **Issuing Bank** (the card issuer, e.g. Visa, Mastercard, Amex)
- The **Acquiring Bank** (the bank that is processing the payments over the network)
- The **Merchant Service Provider** (the company you contracted with for processing)
- You, the **Merchant**

When trying to understand the complexity of credit card fees, it helps to remember that credit card transactions are essentially loans. The issuing bank is loaning funds to your customer to pay you, and you in turn are borrowing funds from the acquiring bank to receive those funds sooner than the customer has actually paid their card balance. Because there is risk being assumed on both sides of the transaction, there are legal and underwriting costs built into processing fees, which vary depending on the nature of the merchant business.

How Your Merchant Fees Get Calculated

Behind each transaction fee you pay as a merchant, there are several layers of fees being collected by the different parties involved. The bedrock of these fees is the **interchange fee**, which is a fixed cost charged by the Issuing Bank (Visa, Mastercard etc.) Interchange fees are published and non-negotiable fees based on a percentage of the transaction value, plus a flat fee expressed as cents per transaction. Unfortunately, the fixed nature of these fees do not translate into predictability for you as a merchant, because they vary widely depending on the kind of transaction. Visa alone has more than fifty different interchange fees corresponding to the type of merchant (supermarket, hotel, gas station etc.), whether or not the card is present (ecommerce), and the type of card being used (prepaid, reward, debit, etc.)

Interchange Plus

The next layer above the bedrock of interchange fees is known (paradoxically) as the **“discount rate,”** which is charged by the Acquiring Bank as a percentage plus fixed cost. These fees reflect the behind-the-scenes costs incurred by the Acquiring Bank such as dues, underwriting, network charges, and the mark-ups that enable them to make a profit. As such, they are highly variable and form the basis for competition among payment processors. Taken together, interchange fees and discount rates are known as **“Interchange Plus.”** Interchange Plus is a popular pricing model for packaging fees and passing them on to merchants. It offers a certain amount of transparency because they are based on published interchange fees, but a lot of room for confusion in the “plus” part of the package, because those fees are variable and can increase over time.

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Tiered Pricing

Another common merchant fee structure is tiered pricing, also known as “bundled pricing.” Payment processors such as Intuit use the tiered pricing model, in which they pay the interchange and discount rates to the banks on behalf of their customers (the merchants). So instead of just passing through those fees to you with a known markup amount, the payment processor defines its own rates according to three or six levels of “qualification.” For example, a tiered-pricing merchant statement will show “Qualified,” “Mid-Qualified,” and “Non-Qualified” rates applied to each transaction based on a myriad array of factors such as card present/not present, credit vs. debit vs. reward card, etc. The downside of tiered pricing is that it offers merchants zero transparency into the fixed costs and markups being charged by your processor, as well as very little control over how to achieve the lowest “qualified” rate on the majority of your transactions.

Merchant Service Providers

Your Merchant Service Provider (MSP) is the friendly face in front of all this complexity; the company offering to set you up to accept credit cards and free you of the headaches involved. Depending on your type of business, your MSP might be a sales rep who sets up your store or restaurant with a POS solution, or if you run an ecommerce site, PayPal might be your default MSP. Either way, your MSP is selling you a package that either passes through or bundles the fees charged by banks in credit card transactions. In addition to passing on fees, MSPs also add a layer of terms of service on top of the terms dictated by the banks. It’s important to look closely at your MSP terms of service (despite the often impenetrable legalese), because they will dictate their ability to raise your fees over time, whether or not you need to place funds in a reserve account, and your flexibility in cancelling service and switching to a new provider.



What are you currently paying in transaction fees? Here's how to find out:

If you aren't able to answer this question, you're not alone. Most merchant statements make it very difficult to understand how much your processor is taking off your sales, whether or not that percentage is what was originally promised, and how to manage fees going forward.

Here is an example of a merchant statement from an Interchange Plus processor:

Fees - continued			
Number	Amount	Description	Total
07	1,443.01	MC ENH MERIT 1 (2.04%XSALES+\$.10XITEMS)	30.14
01	171.13	MC HV MERIT 1 (2.50%XSALES+\$.10XITEMS)	4.38
173	142,769.08	MC NABU FEE(\$.0185XITEMS)	3.20
06	2,986.14	MC MERIT 1 (1.89%XSALES+\$.10XITEMS)	57.04
140	130,099.22	MC CORP DATA RT1 (2.65%XSALES+\$.10XITEMS)	3,461.63
05	2,554.28	MC MERIT 1 DB (2.65%XSALES+\$.10XITEMS)	42.69
07	169.54	MC WORLD MERIT 1 (2.05%XSALES+\$.10XITEMS)	34.52
	142,769.08	MC DUES AND ASSESMENTS (.095%XSALES)	135.63
165	91,377.09	VISA BUS STD (2.95%XSALES+\$.10XITEMS)	2,712.12
70	40,008.39	VISA EIRF (2.30%XSALES+\$.10XITEMS)	927.19
665		VITALPOS AUTHORIZATION @ \$0.10	66.50
133		VITALPOS AMEX AUTHORIZATION @ \$0.10	13.30
13		VITALPOS DISCOVER AUTHORIZATION @ \$0.20	2.60
		Other Fees Due	11,545.70

In this statement, transactions are listed by the various card types that were used. Each card type carries a different interchange rate percentage, plus fixed dollar amount per transaction. The card issuers also add a general fee (e.g. "MC NABU") which applies to all transactions under their brand.

Plan Summary									
Plan Code	Number of Sales	Amount of Sales	Number of Credits	Amount of Credits	Net Sales	Average Ticket	Disc P/I	Disc %	Discount Due
Vs	440	00	.00	.00	304,623.82	692.82	.000	.250	761.58
Mc	173	00	.00	.00	142,769.08	825.25	.000	.250	356.91
Am	00	00	.00	.00	.00	.00	.000	.000	.00
Ds	00	00	.00	.00	.00	.00	.000	.000	.00
**	613	00	.00	.00	447,392.90	729.84			1,118.49

The Plan Summary shows the "plus" part of the ledger; the markup charged by the merchant service provider on top of interchange fees. Here the transactions are lumped together under the four main card types, with the markup shown as a percentage (in this case, 0.25% for Visa and Mastercard), and the fees added up as a "discount due." This statement offers some transparency because the interchange fees are listed separately from the processor fees, but that also makes it hard to figure out what percentage you are paying on average per transaction.



Is a Tiered-Pricing statement any easier to read? Here is an example:

SUMMARY OF CARD FEES		-CONT.	

MASTERCARD			
DISC 1			
QUAL DISC	2,722.53	.01640	44.65
MQUAL DISC	2,038.69	.02470	50.36
NQUAL DISC	3,645.53	.03610	131.60
AUTHS & AVS			
POS-WATS	361 AT	.2700	97.47
TOTAL			324.08
AXP ONEPT			
DISC 1	8,141.69 AT		
AUTHS & AVS			
POS-WATS	274 AT	.2700	73.98
INTERCHANGE			269.07
TOTAL			343.05
VISA			
DISC 1			
QUAL DISC	10,220.23	.01640	167.62
MQUAL DISC	5,891.67	.02470	145.52
NQUAL DISC	1,435.58	.03610	51.82
AUTHS & AVS			
POS-WATS	661 AT	.2700	178.47
ACQ ISA FEE	138.78 AT	.00396	0.55
TOTAL			543.98
DCVR ACQ			
DISC 1			
MQUAL DISC	258.23	.02470	6.38
NQUAL DISC	240.19	.03610	8.67
AUTHS & AVS			
POS-WATS	18 AT	.2700	4.86
TOTAL			19.91
TOTAL CARD FEES			1,231.02

SUMMARY OF MONETARY BATCHES			
	BATCHES		
GROSS	R&C	NET	DATE REF
3,853.60	.00	3,853.60	12/01 98033511980

As with the Interchange Plus statement, transactions are grouped by card type, but here there are sub-categories (“QUAL,” “MQUAL” and “NQUAL”) corresponding to Qualified, Mid-Qualified and Non-Qualified, based on the MSP’s own rating system. The percentage rates for each of these categories are shown as decimal amounts and again as dollar amounts, however there is no visibility into which cards fall into the qualification tiers and why.

So what overall percentage was paid in fees on the 3-Tier statement? For that, you have to whip out your calculator. On almost every merchant statement we’ve seen, the MSP may add up the fees for you, but won’t reveal the actual percentage you’ve paid. To figure that out, you need to divide the total fee amount by your gross transaction amount. Here’s an example:

Total merchant fees:	Gross sales:	Effective rate:
\$844	/ \$25,398	= .0332 or 3.32%

More often than not, this percentage turns out to be more than the “as low as” or introductory rate you may have been offered when you signed up for the merchant service. That’s because of the inherent variability of both Interchange Plus and Tiered Pricing fee structures, which gives MSPs flexibility but can result in “rate creep” for your business.



Tips & Take-aways

Regardless of which MSP you choose for credit cards, here's a few tips for making sure you're getting the best possible deal.

- 1. Know your current rate:** Look at the last three months of merchant statements. Add up the gross sales amount for each month, then the total amount of deductions/fees. Divide the total fees by the total gross sales—that is the average rate you are paying. How does that percentage compare with what was originally advertised?
- 2. Isolate fees from bundled offerings:** When choosing an MSP or internet ecommerce platform, ask them to tell you what your credit card fees will be as separate from all the other pieces of the product (shopping cart, hosting, storage etc.) Find out how they calculate fees—Interchange Plus, Tiered Pricing, or Flat Rate.
- 3. Check the contract terms:** How easily can you cancel service, or swap out the payment gateway from a bundled solution? Are you locked into a multi-year contract? Will they require you to place funds in reserve? How soon following a transaction can you withdraw the funds?
- 4. What about service?** Find out if there's a number you can call if you have a problem, or if all you can do is submit a ticket online. Call support, if you can, and find out their procedures for handling disputes from your customers. Will they investigate an issue on your behalf? Can you enable them to issue refunds on your behalf to avoid chargebacks?
- 5. Look ahead:** Take a look at the history at the MSP's rate history. Have they gone up over time, or down? Does the MSP make any guarantees about fixing or lowering rates as your business grows? Does the MSP seem to be innovating with the latest technology or have they been slow to adapt? Do they support lower cost methods of payment, such as eCheck (direct bank debit) or virtual currency?

Credit cards have ruled transactions for decades, but the Internet and smartphones have opened up new possibilities for direct payments that step around the many layers of processing that have driven up fees for merchants. Business owners can take advantage of these new payment methods today to lower their costs, increase profits and gain a competitive edge.





Introducing a New Way: PayStand's Payments-as-a-Service Model

We're going to venture a guess that as a business owner, you have better things to do than scrutinize merchant statements to make sure you're not overpaying in credit card fees. At PayStand, we've been watching the payments industry for years and wondering why the odds seem to be stacked against merchants in the search for fair rates and transparent reporting. In an era where software is improving almost every aspect of our lives and disrupting entrenched industries, credit card processing seems to be stuck in the past.



Rates that keep getting lower

We think business owners deserve better—you've taken the risk to build your dream, and shouldn't have to hand over a disproportionate chunk of your revenues to credit card processors. So we've introduced a completely different approach to payment processing: **Payments As A Service**. When you subscribe to PayStand, we enable you to accept all major credit cards, including Amex, for a flat monthly fee. We pool the total transaction volume of all our subscribers so we can offer a wholesale rate on transaction fees, with no markup (see chart, below). As our subscriber base grows, we become eligible for further reductions in our rate, which we automatically pass on to you.



Zero-percent payment options

We also decided to give our subscribers a pathway to 0% transaction fees. (Wait—how is that possible?) We give you the option to pass on credit card fees during your customer's checkout process—just as you would add shipping costs to your customer's order. PayStand also lets you add options to pay with eCheck (direct bank account debit) at 0% plus a small fixed amount [see chart] and eCash (Bitcoin) at 0%. With PayStand's easily embeddable web tools, you can offer any combination of these payment options directly on your web site, with your logo and branding.



Flat-rate = predictable

We are completely transparent with our subscribers about our fixed costs, so our merchants can rest assured that there are no hidden fees or rate hikes coming their way. With our flat-rate membership pricing, merchants can benefit from a predictable cost basis, and the knowledge that transaction fees will only get lower over time. And, PayStand membership means you'll benefit from our state-of-the-art web and mobile tools as we constantly improve and expand our offerings.



A human on the phone

There's another part of the payments industry we thought could use an overhaul—merchant support. Everyone knows problems can arise whenever money is changing hands, so shouldn't payment processors help merchants resolve these issues and prevent frivolous refunds and harmful chargebacks? We took the radical step of putting our phone number (prominently!) on our home page, and take pride in answering your calls and following through on payment issues and tech support requests. As a result we have some of the most satisfied customers in the industry, and very low cancellation rates for our service (despite making it easy for customers to cancel at any time).





Rates and Membership Plans (as of February 2015)

Credit Cards (Visa/MasterCard/Amex/Discover): 2.49% + \$0.30

eCheck (bank debit): 0% + \$0.25 under \$100/\$1.00 up to \$1000/\$2.50 over \$1000

eCash (Bitcoin): 0%

Membership Tiers:	Per-Transaction Limit:	Monthly Fee:
Starter:	up to \$1000	\$24
Basic:	up to \$3000	\$49
Standard:	up to \$5000	\$99
Professional:	up to \$15,000	\$299
Enterprise:	over \$15,000	Contact Us



Haven't seen one of these in awhile?
Well, here's ours...

(800) 708-6413
support@paystand.com

Speak to a real person! We strive to serve you in the best ways we can. We are not perfect, but we try pretty hard - and you can reach us directly.

