paystand

Your Guide to Credit Card Fees and How to Eliminate Them

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Today, credit cards are as standard and essential as cash payments. But the price of simplifying, facilitating, and globalizing how we make payments can reflect in high fees. In the long run, this can cost hundreds of thousands of dollars in a few transactions.

Nevertheless, the decentralization of services is happening in several sectors today. The thought that credit card transaction fees may reduce or even disappear altogether is not entirely far-fetched. In fact, it's already happening.

In this ebook, we'll explore how to achieve cost reduction (optimally, elimination) in credit card fees, and improve B2B payments –without resorting to credit cards.

A Brief History of Credit Cards and Fees

Credit cards, as we know them, date back to 1949. During a business dinner, entrepreneur Frank McNamara thought of a way to pay at any establishment. He created a method to pay with a single card in different establishments in a personal and secure way. This gave rise to the Diners Club, the first credit card.

The business model used an intermediary action between the establishment and the buyer. It charged a transaction and a maintenance fee ($3/year in 1951) in exchange for an interest-free deferred payment at the end of the month.

Diners Club grew without competition until 1958. Then American Express, BankAmericard (now VISA), and Interbank Card Association (now MasterCard) were all launched. The modern credit card was born.

Due to the limited technology of the 1960s and 1970s, transactions were manually processed and authorized. This was done over the phone or by checking the card number against a large book of valid card numbers.

Once verified, the information was passed along, manually sorted to the issuing bank, and then attached to the consumer's account. The high level of manual labor for just one card transaction understandably required processing fees.

Costs should have lessened or disappeared altogether with computers and technology automating manual processes. Yet, although litigation to curb these expenses has started, credit card companies continue to charge a wide range of fees.

Credit Card Fees and B2B Payments

In recent years, B2B digital payments (including credit card transactions) have increased. Yet, many suppliers would prefer to avoid credit card payments. High processing fees increase costs, resulting in annual losses of up to billions of dollars. In 2020, merchants in the U.S. paid more than $110 billion in credit card processing fees alone.

Processing fees are crucial when deciding whether credit card payments are the best business option. Since B2B transactions are of higher value than B2C's, fees are a significant obstacle to accepting them.

Let's take a look at the primary types of credit card processing fees B2B businesses can expect:

Credit Card Processor Fees

When accepting credit cards, partner with a payment processing service provider. It moves the money from the issuing bank to the acquiring bank. Processors also function as payment gateways, which ease acceptance and securely send payment data to card networks and banks.

Consider your business's sector, credit history, and sales volume for a customized rate. Processors' fees depend on the amount and value of the transactions and the chosen pricing model. Companies with higher transaction volumes tend to have lower processing fees as they are considered lower risk.

Interchange Fees

Interchange is the acquiring merchant's bank payment to the issuing bank (cardholder). This covers the costs associated with payment approval risk.

Each payment network has a percentage-based interchange fee. Merchants pay this fee to the processor, responsible for paying the credit card issuer, who will then pay the issuing bank. Depending on the processing company, the fixed amount per transaction is usually $0.10 to $0.30.

Assessment Fees

This is a small fee that merchants pay directly to the card network and varies based on some factors unique to each network. As of September 2021:

- **Mastercard:** 0.12% for transactions over $1,000 and 0.13% for transactions under $1,000
- **Visa:** 0.13% for credit card transactions and 0.12% for debit card transactions.

Authorization Fees

Credit card authorization ensures the customer has enough funds before approving a transaction. A hold is placed for the transaction amount if the customer's card has funds. Then the processor can complete the transaction.

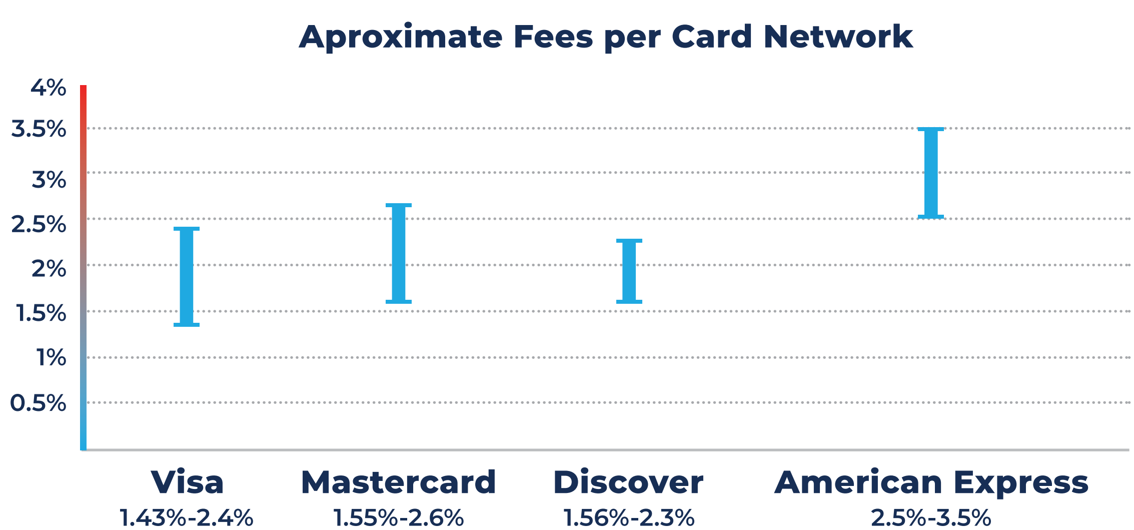
Credit associations charge a small fee for completing this process on each transaction. Merchants are subject to this fee even if not approved.

There are several other credit card processing fees imposed by the payment processor, including but not limited to the following:

- Markup fees per transaction
- Monthly service fees
- Monthly minimum fees
- Batch fees
- Chargeback fees
- Payment terminal fees

By accepting credit card payments and adding fees, merchants pay between 1.3% and 3.5% for each transaction. The amount varies according to credit card network, card type, and business industry.

These are estimates of the different processing fees for each credit card network. Remember that several factors (such as those described above) influence the amount to be paid.



How to Reduce B2B Credit Card Fees

Processing fees are standard but not absolute. Credit card providers offer a range of fees to their customers that can diminish through credit card processing for B2B payments. Here are the five most common ways to reduce credit card fees for B2B purchases.

1. Negotiate Lower Fees

Credit card providers have blanket rates for processing fees, but other prices are available. After using a credit card for at least three billing cycles, you can negotiate lower processing fees with your provider.

Negotiations work better when you are a long-term customer in good standing. Providers are more willing to reconcile with a customer who shares a long partnership with them, than with a company with only a few months' worth of transactions.

In negotiating rates, consider arranging your plan. The two most common pricing methods are interchange-plus pricing and flat-rate processing.

Interchange-Plus Pricing

Interchange-plus pricing provides a variable processing fee depending on the card processing. While this is the cheapest route, factors like changes in the industry or new cards with higher processing costs make it risky.

Flat-Rate Pricing

Flat-rate pricing provides a fixed percentage of your overall processing volume. Flat-rate pricing is stable but can come with higher rates than interchange-plus pricing. In most situations, businesses that process over $5,000 a month in B2B deals will save money by switching to flat-rate pricing.

2. Update your MCC Code to be Identified as a B2B Merchant

A consumer credit card has higher processing fees than one used by a recognized B2B merchant. This occurs for several reasons, but the largest is that merchant accounts face fewer chargebacks and disputes. Having fewer disputes means less labor is required to maintain performance.

If you use a credit card for B2B transactions, ensure your merchant category code (MCC) is up to date to classify your business. If you need to change your MCC identification, speak with your provider. Ask them to disclose your assigned code and talk to them about updating it to one of 38 approved B2B MCC codes. Once you update your MCC, you'll receive lower rates on B2B payments.

3. Submit Level 2 and Level 3 “Enhanced” Data for Commercial Cards

Level 1 is the most basic level of credit card processing. You experience this when you run your credit card as a consumer. By including enhanced data beyond that level as part of your credit card transactions, it’s possible to reduce processing fees.

Enhanced data is only available for commercial card transactions, and a business must be set up to provide level 2 or 3 data. This solution is only available if the card processor has the technology at the transaction time.

The data required is not excessive or invasive. It instead shares basic inventory information about purchases. At level 3, enhanced data includes an item description and quantity, unit of measure, freight or shipping amount, product code, and unit cost.

Not all businesses have the tools to process enhanced data interchanges, so you must speak with each vendor and partner. By using enhanced data categories in your B2B transactions, the fees can be 1.05% lower than non-enhanced categories.

4. Fight Against Fraud and Use an Address Verification Service

Fraud charges have a direct impact on your credit card processing fees. These increase the more fraud claims and charges you face. You can limit chargebacks by using an address verification service (AVS).

During checkout, a customer includes their billing address as part of the transaction. This information compares the record on file at the issuing bank. If the addresses match, the issuing bank sends an AVS response code to authorize or reject the transaction.

Using AVS helps fight against fraud. Some credit card providers provide lower interchange rates whenever a transaction uses an AVS check.

5. Offset Fees with Surcharges

Surcharges share the expense of credit card processing fees with vendors and clients. This can come in the form of a partial or complete surcharge.

A partial surcharge passes on a percentage of the processing fee as part of the final invoice. A complete surcharge includes the entire processing fee.

A surcharge won't reduce credit card processing fees; it only changes who pays them. While this solution can help you save money, it can add unwanted stress to your relationship with some vendors unwilling to pay extra fees. In some states, adding a surcharge to a purchase is illegal. California, Colorado, Connecticut, Florida, Kansas, Maine, Massachusetts, New York, Oklahoma, and Texas have banned surcharges with limited exceptions.

The Real Value of Credit Card Discounts

For B2B companies, processing discounts are similar to a regular credit card, offering the consumer cash back on every purchase. It may seem like the credit company is giving back the money earned for the fees and even a little more. However, the credit card company still makes a profit after every transaction. This translates to a considerable margin loss in the long run.

The credit card provider absorbs a small short-term cost in revenue, ensuring their customers' brand loyalty. They would rather earn a little less per customer than lose the customer and all the revenue associated with their account.

Because of their accessibility and ease of use, credit card companies have little competition. They incentivize customers to pay for points, discounts, and other benefits through credit cards.

Who absorbs the cost of these credit card rewards? The merchant.

In the past year, merchants who accept credit cards have spent more than 25% more in fees than the year before. Saving even 0.1% on processing fees can save thousands, if not millions, of dollars per year.

Most credit card processors can't negotiate better pricing. This forces businesses to either subtract the cost of credit card transactions from their revenue or find another way to save on credit card-associated costs.

In short, reducing credit card processing fees through discounts is a palliative for a much bigger problem: we need to drop these fees to see a real benefit to our business. But is getting to the point of a zero-fee possible? It is, and we can immediately have this solution in our hands.

The Zero-Fee Era for B2B Payments is Here

How do you get paid? How do you receive payments? In a perfect world, how would you prefer to get paid? **In an ideal world, payment processing is efficient, quick, smooth, and feeless.**

It is no longer necessary to dream it to live it. The option to make B2B transactions without fees, charges, surcharges, or penalties is here, in the real world. Thanks to the technology developed by Paystand.

Say Goodbye to Processing Fees with Paystand

With Paystand, payment processing fees are a thing of the past. Finally, companies can make payments easy, efficient, fast, and feeless.

Paystand is the ONLY B2B network that allows instant fund transfers at no cost to the company or its customers. Our payments-as-a-service model is the industry's first

SaaS platform for payments that reduces costs and increases profit margins.

Companies can have more control over their costs and enjoy instant fund verification to end chargebacks, fees, and collect follow-up calls. The Paystand Bank Network gives businesses real-time fund transfers for zero-fee, digital payments.

All Paystand Bank Network transactions are blockchain-based. This prevents fraud, so the payment is automatically notarized with a certified, fully auditable, tamper-free record trail.

How Does Paystand Work?

Rather than fees per transaction, Paystand uses a monthly subscription model. Each month, companies pay a flat fee to use Paystand. With that membership, they can make as many transactions at any size with zero extra fees.

We make fee-zero possible by eliminating the intermediation of banks. Part of these fees come from the merchant banks involved in each payment's processing and clearing. By erasing them, we make payment processing cheaper, with no extra processing fees or charges.

We use automated P2P payment digital technology. This means businesses can make and accept instant payments without extra fees. With automatic fund transfers, there's no need for clearing or processing fees.

The Best Option for your Business and Clients

The Paystand Least Cost Routing Technology allows merchants to offer their customers alternative payment methods. This includes credit cards while decreasing or eliminating the cost to the business.

With Paystand, businesses can have zero cost to their transactions and allow customers to choose the best payment method. Customers decide how they want to pay you, but we position the opportunity in a manner that mitigates your costs.

Paystand offers concrete benefits that will allow you and your customers to:

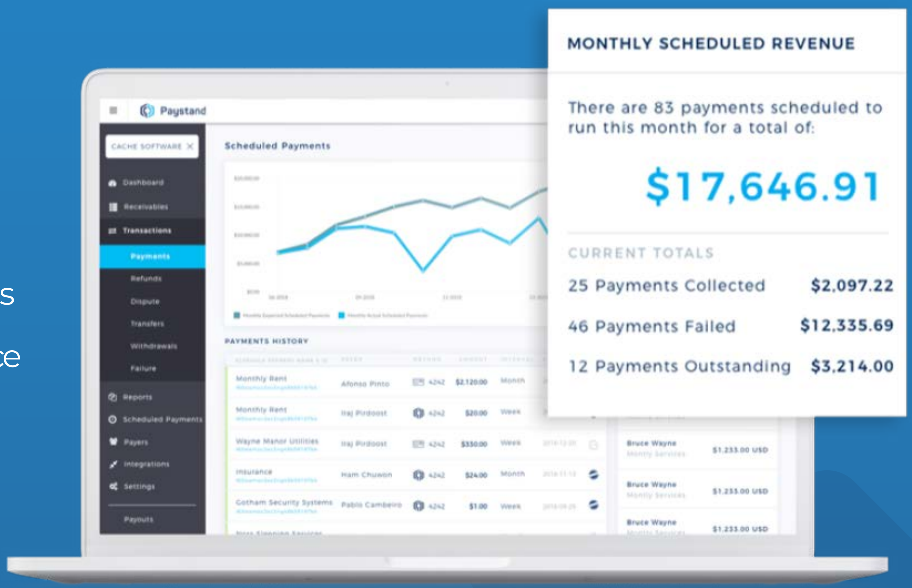
- Speed up cash flow to the business by providing a digital payment process.
- Negate labor costs while increasing speed and efficiency with automation.
- Drop transaction fees with the Paystand Bank Network or pass along transaction fees.
- Provide a seamless customer experience by offering multiple payment methods and one-click payments.

Make Payments a Strategic Advantage with Paystand

A Business Payment Network for the Digital Era

Paystand helps you:

- Speed up time to cash
- Automate complicated billing processes
- Eliminate credit card fees
- Simplify payer experience



Integrates seamlessly with Sage Intacct and NetSuite.

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