

# MASTER YOUR CARD

*Electrifying Business Growth*

A community empowerment program sponsored by  **mastercard**

## FIND THE BEST PAYMENT PROCESSOR



The good news is that it is very easy for small businesses to access electronic payment networks. There is a ready supply of payment processors who want to compete for your business. The challenge is that costs can vary among processors and some business owners find it hard to get an apples-to-apples comparison between them.

Understanding who is competing for your business helps you to compete. You can open a merchant account with a variety of providers. Knowing your options and who's who in card payment processing is the first step toward finding the best processor for you.

## WHO PROCESSES CREDIT, DEBIT AND PREPAID CARD PAYMENTS

**Electronic payment network (EPN).** These proprietary networks, built and maintained by technology companies like Mastercard, provide the instantaneous and secure connections between consumers' credit cards and the businesses from which they purchase goods and services. Consumer banks obtain a license from these electronic payment networks to issue credit, debit and prepaid cards to their customers. For example, Capital One, Chase and Citi are three of many banks that offer customers a variety of payment cards that all use the Mastercard electronic payment network. These payment cards all have different terms, conditions and rewards that are defined by the individual banks. The banks also bill consumers and provide their customer service.

On the other end of the transaction, businesses choose the electronic payment networks they will accept and then hire a payment processor with the network access and customer service that they need. There are four basic groups of payment processors a business can choose from.

**Acquiring bank.** Acquiring banks are local, community, regional or national banks that participate in the electronic payment networks on the merchant side of processing customers' payments. Just as consumers have checking and savings accounts with these groups, so do businesses.

A direct electronic payment processing account through one of these banks, including your local bank, has many advantages if you already have a broad banking relationship. In addition to the type of business you run, your existing relationship will factor into the bank's underwriting policies. Some banks have in-house payment processing resources and others may outsource those processing services to third-party processors (TPPs).

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**Third-party processor (TPP).** Third-party processors focus primarily on larger merchants. TPPs can be more cost-effective and flexible for large businesses because the processors have direct access to electronic payment networks through an acquiring bank and provide all the support on large businesses' accounts. These TPPs don't have consumer brands the general public would recognize as they function exclusively in a business-to-business environment between businesses and acquiring banks.

**Independent sales organization (ISO).** These organizations specialize in soliciting smaller business accounts and then contracting with acquiring banks or TPPs to provide the actual processing services. One step removed from the electronic payment network, ISOs may specialize in specific business sectors—making it easier to get a merchant account from someone who knows your field. ISO costs can be higher than other options as they have to pay a transaction fee to the acquiring bank or TPP with which they partner to deliver your services.

**Internet payment service provider (IPSP).** This provider will work with a TPP or acquiring bank to provide payment services to you. They focus on small or medium-sized Internet-based businesses—usually providing technical support on proprietary payment platforms. The cost of specialized services, TPP fees and acquiring bank fees add to their overhead and your costs.

## WHY CARD COSTS VARY

Differences in the card products can create differences in how much you pay per transaction. Some cards, for example, are designed for more affluent cardholders. These cards may cost merchants more because the consumers who use these cards tend to spend more and thus are more valuable to businesses.

The other source of variation in your card processing costs comes from the variety of payment processors competing for your business. They have different business models, risks and overhead—and therefore may have different pricing and other terms—that's part of why you may feel like it's hard to get an apples-to-apples comparison.

## FIND THE BEST FIT FOR YOUR BUSINESS

There are many different payment processors because there are many different business models. Competing for business, payment processors tend to focus on specialized services that fit particular business needs. If you have a good relationship with your local bank, that is often a good place to start because you will be working within a known relationship and leveraging your entire bundle of services to your mutual benefit. The list below includes a few things to think about and questions to ask processors in order to find the best fit for your business.

**Business profile.** Do you offer goods, services or both? Does the payment processor have expertise and experience with your type of business? Are your payment card transactions in-person, over the phone, and/or online? You may find advantages in dealing with someone who has a track record and client references in your market and who operates in your geographic area.

**Transparent billing.** Businesses that accept all the major payment brands can be subject to several types of fees. From pricing to reporting, you need a breakdown of your fees that is intuitive and transparent so that you understand what you're paying for and what services you receive for your money. Are your rates tiered by volume or by dollar amount? Are the processor's costs passed through? Where are the mark-ups? Is it easy and timely to get details on individual transactions or to search for specific categories of sales and information? Talk with your accountants about what they need as well as what they would like, and then ask processors for sample reports to compare.

**Support.** How much support do you need? Do you anticipate wanting around-the-clock access? By email, phone or both? Are electronic reports, transaction details and chargebacks available online? What are the typical wait times? Are there line item fees for services and reports?

**Data security.** Small businesses rely on processors to ensure their security meets standards and best practices. You want one that is certified as Payment Card Industry Data Security Standard (PCI DSS) compliant. In addition to the customer and brand impact of failing to protect customer and client information, there are fines and penalties you may be liable for if security is breached. What assistance will they provide in ensuring that your operating environment is compliant with PCI DSS?