# The Ultimate Guide to Merchant Services Payment Processing

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A Note from the Team at HeroPay

So you’re ready to begin accepting credit card payments—or you already do, but you know you could use a better understanding of the process. And there it comes...that deer-in-the-headlights moment everyone experiences along the way. Don’t worry, we get it.

The great thing is, you’ve decided to take action and make a move. Well rest assured, HeroPay is here to help make sense of it all with this simple step-by-step guide. We’ll provide the tools and insight to master your payment processing, leaving you free to focus on the business priorities you find important.

In this document you’ll find valuable insight into these outlined topics:

An Overview: What is Credit Card Processing and How does it work?
How to Get Started: A Step by Step Guide to Accepting credit cards
Pricing: Fees and Pricing Explained
Hardware: Types of terminals, and which one is right for your business
Ongoing: Staying on top of your card-processing operations

For resources beyond our nifty guide, check out www.myheropay.com to access a free suite of tools and reference, and our high-powered comparison engine. Heck, chat with us online or give us a call. We’re here with answers and happy to help.

Under our steely superhero facade—we’re just payments nerds working on boiling complex ideas into simple, seamless solutions.

twitter:@myheropay
What is Credit Card Processing and how does it work?
Let’s face it, customers these days carry less cash and more credit and debit cards. Not only do they want to use those cards to make purchases, they increasingly expect they’ll be able to do so.

So what does that mean for you? Well, customers that feel better about their purchasing options are... well, more likely to purchase, and more likely to purchase at higher amounts. Which should help to begin answering any questions on why fees are involved. Simply put, it can help your business grow.

Now as far as how much to pay in fees, the answer isn’t so simple. There’s no one-size-fits-all in terms of the services offered and there are many providers to choose from. There are a number of important factors that should help determine what plans work for you. HeroPay will help you navigate the complex terrain of payment processing, saving you time and money so you can decrease stress and increase your business’ bottom line.

When a customer comes to your store and presents a card for payment, it’s as simple as swiping, dipping, or manually keying in the card number. Identifying information from the card is transferred to the merchant’s terminal...and boom... that’s where the magic happens. Within moments, the customer’s information and a request for funds are sent to their bank or credit card lender.

As soon as the necessary funds are confirmed and the payment is accepted, those funds are set aside, ready for transfer to your merchant account. Once you “batch out” the card payments you’ve received (think of them as casino chips you cash in at the end of the night), the money is scheduled to be sent according to your merchant processing schedule, or the window of time that your provider agrees to transfer your funds.

**Batch Out**

At the end of the day, merchants will send a settlement request for all the transactions for the day... this process is known as “batching out”
How Does a Transaction Work?

Let’s look at a step by step example of the transaction flow

1. Jill walks into your store to buy $100 worth of books.
2. Her card is swiped, dipped, or keyed at your terminal
3. The information on the card is captured during the swipe
4. A request for authorization is sent to the cardholder’s bank, to confirm that Jill has the available balance to cover the $100 charge.
5. A Yes (approved) or No (declined) response is sent back to your merchant terminal. If the payment is declined, there will be a response code.
6. If the transaction is approved, $100 from the cardholder’s account will be deducted and your provider will add $100 to your merchant account balance minus a small fee percentage. We will explain these fees later in more depth in the Fees and Pricing explained section.
02
How do I accept payments and get started?
Choosing a merchant services provider and payment processing plan is your first step—a pretty big step at that.

Sure, you could check out your bank’s website and call their toll-free merchant services number, or you could google “accepting credit cards in small business” and click on the first link. But are you ready for what’s next? Will you continue on to seek out competitive rates? It’s easy to feel pressured with the first proposal you’re given, even if for just “wanting the process to be over” and that can sometimes be a costly mistake.

Still feel like Bambi frozen in the high beams? Well snap out of it, with our easy-to-use comparison tool, you’ll soon move comfortably to saving time and money with multiple customized and competitive options.

Because there’s no better way to consider your options than when they’re side-by-side, pre-screened, and full-out for all to see.

The HeroPay Comparison Page

Your business deserves not only a smooth transaction flow, but also thoughtful and efficient pricing, settlement timing, customer service and security.
5 Steps to Acceptance

Step 1: Set your Business’ acceptance plan
Start by forming a simple business card-acceptance strategy and understanding what requirements you’ll need. Visit HeroPay Academy for helpful information. At the HeroPay Academy, you’ll find a simple business processing plan you can use as a template.

Step 2: Source a payment processing provider
Know your options. Use HeroPay’s comparison engine to quickly review multiple pre-screened processors. Otherwise, you could call your bank or find a merchant service provider and ask about their offerings. But then you’ve got only one choice.

Step 3: Review transparent pricing and contract terms and conditions
Just like any complicated sales process with lots of little numbers, there are those providers out there that literally aim to “nickel-and-dime” businesses. And considering the amount of transactions you may have, those nickels and dimes add up fast. At HeroPay, we’re strong believers in Interchange Plus pricing as an industry standard.

Step 4: Choose a provider and apply for a merchant account
One. Which isn’t really a choice at all. Check out HeroPay’s Merchant Screening Checklist

Step 5: Setup your terminal or gateway
Once approved a card processing terminal will be sent to your location. The set-up process could be as simple as plugging it into a smartphone, tablet, phone line or internet connection. Also access can be given to an online portal to start accepting payments immediately.

For eCommerce Merchants, your web developer can work with the gateway provider for website integration. They’ll test transactions to ensure you’re up-and-running, and many providers even provide toolkits to facilitate this process quickly.
03
Fees and Pricing Explained
Credit card processing fees can feel overwhelming, and understanding your pricing can be a villainous task. Well never fear—HeroPay is here to save the dazed and confused!

Credit card processing will typically cost most merchants 2-4% of the cost of the overall transaction. As an example, if a transaction is $100, 3% (or $3) may be deducted from the deposited amount in the form of fees and you will receive $97. This $3 is transferred to the various parties who help facilitate the payment.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction Fee</td>
<td>$100</td>
</tr>
<tr>
<td>(less) Interchange + Network Fees</td>
<td>$2.00</td>
</tr>
<tr>
<td>(less) Processing &amp; Acquiring Fee</td>
<td>$1.00</td>
</tr>
<tr>
<td>Transferred to merchant</td>
<td>$97.00</td>
</tr>
</tbody>
</table>
Types of Fees

As depicted earlier, there are several components that are a part of the overall fee charged to the merchant. For your convenience, we’ve built a great calculator to help you easily crunch the numbers.

**Wholesale Costs:** They represent the sum of Interchange and Network fees charged by Visa and MasterCard, which are then passed through to you. Sorry, but these fees are set by the networks, and non-negotiable for everyone. They’re applied to the volume and number of transactions you process through your terminal.

**Merchant Account Processing Costs:** These are fees set by your merchant account provider to help facilitate and manage your account, and to connect your terminal to the networks. They are applied to the volume and number of transactions you process through your terminal.

**Recurring Account Costs:** Fees charged on a one-time, monthly, or annual basis such as setup fees, monthly maintenance fees, PCI compliance fees, etc.

- Per Transaction
- Percentage of Volume
- Per Transaction
- Percentage of Volume
- Monthly or Annual Per Account
Tools to calculate your fees

Enter in your Information
Get started by entering a few details about your business

Let the HeroPay software calculate your fees
Compare your rate for a detailed breakdown of your fees

<table>
<thead>
<tr>
<th>Enter your information to compare</th>
<th>Current</th>
<th>New Account</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Card Volume</strong></td>
<td>9%</td>
<td>50</td>
</tr>
<tr>
<td><strong>Average Transaction Size</strong></td>
<td>$20</td>
<td></td>
</tr>
<tr>
<td>Select Type of Business</td>
<td>Ecommerce</td>
<td></td>
</tr>
<tr>
<td>% by Channel in which you’re accepting cards</td>
<td>20% 20% 20% 20%</td>
<td></td>
</tr>
<tr>
<td>Enter your current fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment provider</td>
<td>Per volume</td>
<td>Per transaction</td>
</tr>
<tr>
<td>Square</td>
<td>$20</td>
<td>$20</td>
</tr>
<tr>
<td>PCI Fee</td>
<td>$5.00</td>
<td></td>
</tr>
<tr>
<td>T&amp;N</td>
<td>$5.00</td>
<td></td>
</tr>
<tr>
<td>Statement</td>
<td>$5.00</td>
<td></td>
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</tbody>
</table>

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The Ultimate Guide to Merchant Services Payment Processing
The Major Factor’s that Affect your Costs
A few major factors will affect the fee you see on your merchant statement at the end of the month. Once you’ve found the right provider, you will normally be quoted something that looks like... \((\text{Interchange} + 0.50\% + \$0.30)\). Essentially that means you’ll be charged Interchange (more on this later) and 0.50% per dollar of volume and $0.30 per transaction that provider processes for your account.

**Total Card Processed Volume:** As you continue to grow you’ll notice your processing costs growing inline with your business. The 0.50% portion of your fee is applied to the total card processed volume and is lower your sales are small and grows as you process more volume.

**# of Transactions:** Similar to volume, the number of transactions will effect your processing costs.

**Keyed or Swiped:** Typically the cost to process a transaction for a card that’s been Swiped (or Dipped) at a physical terminal is lower than a card whose number is keyed into a terminal or a card that has been accepted on a website via their virtual terminal. The reason being that swiped transactions are considered less risky as the merchant has more means to verify their identity.

<table>
<thead>
<tr>
<th>Bill’s Bookstore</th>
<th>Dave’s Coffee Shop</th>
</tr>
</thead>
<tbody>
<tr>
<td>500 Transactions</td>
<td>1,000 Transactions</td>
</tr>
<tr>
<td>500 x $0.30 = $150</td>
<td>1,000 x $0.30 = $300</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bill’s Bookstore</th>
<th>$10,000 in monthly Card Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000 x 0.5% = $50</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Dave’s Coffee Shop</th>
<th>$20,000 in monthly Card Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20,000 x 0.5% = $100</td>
<td></td>
</tr>
</tbody>
</table>

**Swiped or Dipped Transactions VS. Keyed in Transactions**

- \(\checkmark\) In Person
- \(\checkmark\) Mail Order
- \(\checkmark\) eCommerce
- \(\checkmark\) Telephone Order

**Costs:**
- **Swiped or Dipped Transactions:** Lower
- **Keyed in Transactions:** Higher
Different pricing structures offered by Merchant Providers

Hopefully these are all of the major factors that effect your pricing, unfortunately... as many merchants have found out the hard way, many providers take advantage of the complexity of pricing a merchant account to hide “gotcha” fees and input other factors that can seriously effect your costs. More on this in the next section!

As we mentioned earlier, the calculation of merchant account fees is a tricky thing. There are many different types of pricing models offered to merchants because, well, one size doesn’t fit all.

At HeroPay, we value transparency, and believe merchant contracts should state their pricing schedule clearly. For a better understanding of how fees are structured, let’s have a look at two common pricing structures and how they differ.

**Interchange Plus vs. Tiered Pricing**

**Hero Tip:**

...some of the biggest factors that affect price are whether the card is swiped or dipped in the terminal (cheaper) vs. keyed in (more expensive) and whether it’s a debit card (cheaper) vs. a credit card (more expensive).

You may ask yourself, well, I will only swipe debit cards in my store! This is a good thought, however, the credit card networks (Visa, MasterCard) have rules of acceptance for all cards and you’ll need to balance your customers’ payment preference with fees associated.

You’d hate to lose a customer or a sale because of a limited option in your store!
Interchange Plus vs. Tiered Pricing

**THE BAD**

**Tiered Pricing:** Pricing based on different classification codes such as qualified and non-qualified. This pricing structure contains a clause that allows providers to “downgrade” transactions charging the higher classification rate. Merchants with tiered-pricing agreements are rarely charged the appealing “teaser rate” they were originally sold. Heck, we’ve seen charges in these contracts that amount to double what merchants were expecting to pay!

**THE GOOD**

**Interchange-Plus:** Interchange Plus or Wholesale Plus is the most transparent form of pricing. Merchants are paying the wholesale rates (non-negotiable Interchange + Network Fees) plus the processor’s fee for servicing your transactions. We’re big believers in the Interchange-Plus model, as it minimizes your exposure to unsavory business practices. Sure, there are some isolated events of unrighteous entities with gimmicky fees buried in their contracts, but that’s the world we live in.

The main idea is taking careful consideration when purchasing merchant payment processing services. By coming to a better understanding and having an advocate at your side, not only can you avoid the bad apples—you can confidently pick the best, juiciest apple in the whole orchard.

At HeroPay, we pre-screen merchant providers and ensure they conform to a high set of business standards. All contracts on our system must meet a criteria of transparency so that you can make an informed and comfortable decision.

If you see the words “qualified” or “non-qualified on your statements... just run!
Interchange Plus vs. Tiered Pricing
A Case study in Deceptive Business Practices

<table>
<thead>
<tr>
<th>BUSINESS TYPE</th>
<th>DISCOUNT</th>
<th>CARD OPTIONS</th>
<th>SCHEDULE OF FEES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td>Daily</td>
<td>Debit Card Only</td>
<td></td>
</tr>
<tr>
<td>Restaurant</td>
<td>Monthly</td>
<td>All Cards</td>
<td></td>
</tr>
<tr>
<td>Mail/Telephone Order</td>
<td></td>
<td>Other Cards</td>
<td></td>
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</table>

This one little trick doubled the monthly costs to the merchant!

The teaser rate “1.69% + $0.20” was the rate that the merchant was quoted. We found out that this merchants effect rate was over 3.5%! The merchant was actually paying 1.69% plus 0.70% plus 0.70% for their non-qualified transactions which the processor had deemed was most of their transactions. This one little trick essentially doubled the monthly costs to the merchant!
Check your effective rate!

The bottom line—it’s important you understand how to determine your total cost of accepting credit cards

Come on over and use HeroPay’s simple calculator to help calculate your fees...

**for free!**

Simple calculation to check your effective rate

\[
\text{Your Effective Rate} = \frac{\text{Total Processing Volume}}{\text{Your Statement Fees}}
\]
What about Terminals and Gateways?
Brick and Mortar Retailer Terminals

You will need a Point of Sale (POS) terminal to read your customer’s chip or magnetic stripe credit card. But you already knew that, no doubt as we’re sure you’ve been on the other side of the transaction many times as a consumer!

Terminals: Terminals are the hardware devices that are used to accept cards. They are commonly placed on the countertop and connected to the processor via a telephone, internet, or wireless line. We recommend this for most retail brick and mortar small merchants with volume (total $ amount of card purchases) between $10,000 and $20,000 per month.

Point of Sale systems: A full point-of-sale system is recommended for higher volume businesses. These types of systems are very popular in restaurants and grocery stores. They have more sophisticated POS software with access to inventory management workflows.

Mobile and Tablets Attachments

New, innovative and ever evolving, these devices are attachments that work with a mobile device or tablet. They give access through a software application on your phone, offering full POS system operations at your fingertips. These devices are appropriate for many business needs, especially if you have sales staff who are not tied to one place. We highly recommend these types of devices—however—many providers have attached pricing schemes (flat rates i.e. 2.75%) that may be a better fit for merchants processing under $10,000 per month. Our recommendation: if you would like to utilize a mobile POS system, find a provider with interchange plus pricing to get the best value for your business.
**EMV**

EMV, also known as “chip” cards, named after the companies that created this standard—Europay, MasterCard, and Visa. Chip cards are “dipped” rather than swiped at the terminal.

On October 1, 2015 the major credit card brands announced a liability shift for fraudulent transactions. Historically, if someone paid with a fraudulent chip card, the banks would be liable for the cost. However, now the liability has shifted to merchants who haven’t upgraded their POS technology to accept EMV chip cards.

If you’re a new merchant looking for a payment provider, make sure they provide an EMV-capable terminal. If you are a merchant who’s already accepting credit card payments, we recommend you do a cost analysis before upgrading to an EMV terminal. This allows you to compare the value of the liability risk against the costs to update. For more on this, check out our EMV whitepaper.

EMV does not apply to eCommerce transactions.
Leasing Vs. Buying

It’s not like buying a car. But you’ll often have the option of purchasing a POS terminal or leasing it. Frankly, we place most lease offerings in the unsavory business practice category.

Many providers charge $50 to $100 per month to rent, when the average purchase price is around $400 per unit. It doesn’t take long for that math to add up to something unappealing to your bottom line.

If your business is tight on startup funds, our recommendation is to look for other financing options, as lease financing rates are often extremely and inappropriately high.

...Leasing a terminal rarely makes sense...

Watch out for providers offering leasing options.
**eCommerce Gateways**

Gateways... an eCommerce gateway is a virtual terminal used by internet merchants to authorize transactions online. Gateways are offered in addition to merchant accounts (much like a physical terminal is) and connected to your website and shopping cart. Web developers should be able to help you set up a website gateway to accept cards.

In addition to processing fees for these accounts, there is usually a small gateway technology fee. When selling online and handling cardholder data, security is of the utmost importance and should be managed accordingly.

If you have customers overseas you’ll want to make sure all countries and currencies are supported.
05
Ongoing Operational Management
Chargebacks

A cardholder has the right to “chargeback” or rescind a purchase for any number of reasons like claimed fraudulent use of the card, item defect, or technical error. In the case of a chargeback, the money for that transaction will be debited from your merchant account and returned to the cardholders account via a temporary check. You will receive a notice by mail, fax, or an online management portal.

In the event of a chargeback you will have a window to dispute the chargeback, in which case acquiring bank and issuing bank will mediate the process within an established framework set by the networks. Typically, 60% of chargebacks are disputed and roughly 40% of merchants who dispute chargebacks win.

<table>
<thead>
<tr>
<th>% of Chargebacks that are disputed</th>
<th>% of merchants who dispute chargeback that win</th>
</tr>
</thead>
<tbody>
<tr>
<td>60%</td>
<td>40%</td>
</tr>
</tbody>
</table>

You'll want to minimize chargebacks as they take away time and revenue from your business operations.

Establish proper training and integrate these practices with your staff. For a more in depth look at chargebacks please see our Merchant Chargebacks 101 paper.

Visit the HeroPay Academy and read Merchant Chargebacks Best Practices for more information.
Settlement & Funding

Cashflow can sometimes be the lifeblood of a business. It’s important to ensure your provider has funding arrangements that meet your business needs.

Typical funding terms are 2-3 days of purchase settlement (excluding bank holidays and weekends), while some providers like PayPal or Square chose to delay funding 30 days for new relationships until they determine the underwriting practice of some merchants.

This is in effort to reduce their risk exposure to fraudulent merchant activity. For those not in need of cashflow during the initial waiting period, this feature won’t matter. For others, it can be quite challenging. Make sure to review your funding structure with your provider.
Connecting to Accounting software

Almost all payment providers offer integration with accounting software platforms. If you’re not already using accounting software (such as Intuit’s Quickbooks), we highly recommend starting.

Accounting software helps you manage your transaction information, track inventory, and access a host of other data-analytic accounting tools for your business. Integration between your merchant account and accounting software tool can be easily accomplished by manual exporting data, using in-house or third-party plugins, or direct (and more sophisticated) integrations.
Security & PCI Compliance

We’ve all heard the horror stories of hackers stealing cardholder data which led to fraud losses to merchants, cardholders, and banks. Small businesses like all other participants in the electronic payments value chain need to adhere to industry wide standards known as “PCI” (Payments Card Industry) compliance.

Most small business merchants fall into a level 4 category (less than 20k eCommerce transactions annually or 1MM non-eCommerce transactions) and are required to complete a self assessment questionnaire. The standards for eCommerce merchants is higher than for brick and mortar merchants due to the increased risk of fraud.

When choosing a provider it’s your responsibility to ensure they also adhere to the PCI standards. Ensure the hardware you procure, the storage of your customer’s cardholder data and the provider are all PCI compliant. Long story short, don’t store cardholder data!

While maintaining your system, providers can provide quarterly PCI scans (which they charge a fee for) to ensure compliance. In some scenarios merchants can be fined for not adhering to the compliance standards and in the worst case a fraudulent incident can happen to your business causing even larger losses or fines.

Make sure you discuss PCI compliance with your provider, your employees, and follow all the PCI standards closely!

One of the main focuses of PCI is ensuring that cardholder data is properly handled.

We recommend you outsource this data and ensure your not holding any cardholder data!
In Conclusion

Congratulations! You are one giant step closer to becoming a payments expert. We know all of this can be plenty confusing, however, remember if you ever need any help stop by the HeroPay website and say hi!

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www.myheropay.com
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