Heartland

Your guide to **payment processing**

eBook

Contents

You deserve transparent, fair credit card processing

At Heartland, we're passionate about helping small business owners succeed. If you don't know all the ins and outs of payment processing, it can seem confusing...and expensive. But you shouldn't have to be an expert to get everything you need without getting ripped off. We've got your back.

Promoting fairness and transparency in credit, debit and prepaid card processing is in our DNA. It's more than a founding principle for us — we firmly believe it should be an industry standard. That's why we published The Merchant Bill of Rights in 2006. Because every entrepreneur deserves a clear and straightforward presentation of credit card processing costs.

Whether you use Heartland or choose one of our competitors, you deserve to know how payment processing works, why it costs money, how to tell if what you're paying is fair, and how to pick a good provider.

This guide aims to show you what you need to know — and what you should do — to ensure you get a payment processor that will deliver the value you deserve.

Why every business should take credit cards

Cash is no longer king

The US is quickly embracing the “cashless” economy. A recent Pew Research Center survey shows 41% of Americans don’t use cash for any purchases in a typical week. This number is up from 29% in 2018 and 24% in 2015. In the same survey, 42% of Americans say that they do not worry about having cash on hand since there are so many other ways to pay.

Accepting credit cards can legitimize a business and improve cash flow almost instantly. It can also give you greater access to higher ticket sales from impulse shoppers who will spend more just because they can with plastic.

Cash is risky

Taking credit cards can also help address some of the issues that can affect your bottom line. With less cash on hand and fewer bank deposit drops, the risk of robberies lowers. Employee theft becomes more difficult to commit, and end-of-day reconciliation becomes an easier task with less risk for errors.

Cash doesn’t work online

Accepting credit cards is basically mandatory for selling online. The National Federation of Independent Business estimates that 90% of online purchases are made using credit cards.

Card acceptance is expected

Whether online, or at a brick-and-mortar location, the benefits of diversifying your payments outweigh the risks. Consumers today expect multiple payment options. In addition to credit and debit cards, mobile payments and contactless payments have become standard. If your business can’t accept all the ways customers want to pay, it’s likely you’ll lose out on sales.

41% of Americans don’t use cash for any purchases in a typical week.

42% of Americans say that they do not worry about having cash on hand since there are so many other ways to pay.

90% of online purchases are made using credit cards.

How to accept credit cards

OK, so once you've decided you want to accept credit cards one of the first big decisions is **how** you'll accept credit cards. You can accept cards online, in-store or even on the go with mobile card readers. Let's take a look.

Online

You've got a beautiful, functional powerhouse of a website. But how do you accept online payments? This is where a payment service provider enters the picture. When you set up your online shop, you'll need a payment gateway in order to take the customer's credit card information and get paid for your goods or services.

Payment service providers help facilitate the transaction from this gateway to all the necessary parties in the card authorization network so that you get paid. You'll want to make sure that the payment processing solution you're using is compatible with your e-commerce platform (such as Shopify), so that payments are seamless for your customers. The more seamless the experience for customers, the faster you'll get paid.

In-store

Whether you're a retail shop or restaurant, accepting credit cards onsite requires some hardware. You've got some options!

- **An EMV-enabled chip card reader.** Also known as a terminal, a card reader allows you to accept physical credit cards in person. These are more secure than outdated magnetic stripe card readers—adding more credibility to your business and less fraud liability. Many EMV chip card readers also provide tap-to-pay and smart payment options (like Samsung Pay and Apple Pay), allowing customers to pay you even when they forget their wallets. They can be used alone or in conjunction with a cash register or point of sale (POS) system.

- **POS system:** POS systems are typically more robust options, allowing you to do much more than just accept credit card payments. With a POS, you can run your entire business, including tracking and managing inventory, offering online ordering, maintaining a customer database with robust reporting and so much more.

Mobile

Mobile credit card readers have gained popularity because they're easy to tote around and use on the go when synced to mobile apps. If you're traveling here and there and need to take payments at any time (think craft fairs, food trucks), a mobile payment solution can be invaluable to your business. These mobile card readers can fit right in your pocket and connect to your phone quickly and safely. The result is a fast, secure payment method that you can take wherever your business takes you.

What you'll pay — and who you'll pay — to take credit cards

You're paying a payment processor to accept credit cards. All of the money goes to them, right? Not so fast. There are a lot of players and different costs involved with credit card processing. The payment processor is one small link in a much larger chain. Let's go through the fees you can expect — and who collects the coin for each.

Interchange fees

$$$

These go to: Card issuers (banks)
An interchange fee is charged by card-issuing banks to cover the basic processing costs of each transaction. The amount charged depends on the card type.

Interchange is likely the bulk of what you pay to process — 70% to 85%. Whether or not that's transparent will likely come down to your pricing structure choice and how transparent your processor is (more on that later). Interchange rates are:

- Set by the credit card brands
- Non-negotiable for merchants or processors
- Public knowledge – many credit card companies list them on their websites
- Generally updated twice per year
- Determined by a business' MCC code

Dues and assessments

$$$

These go to: Card brands (Visa, Mastercard, etc.)
Dues and assessments are likely the second-largest cost of processing, and are charged to cover the card brands' operating costs of managing their networks. Assessments are flat-rate percentages that card brands charge against total gross monthly sales. Sometimes they are a separate line item on your monthly statement, or they can be divided by and bundled into the interchange rate on each individual transaction. Dues is the term for the rest of the various, small miscellaneous fees charged by the card brands. Dues are mostly per item transaction fees that are charged per authorization and settlement of a sale. Some dues are charged on every transaction; others are based on a transaction's characteristics.

Discount per item (DPI) and Discount % rate

$$$

These go to: Card issuers (banks)
A discount per item fee is a flat charge assessed on each settled transaction together with a discount rate, a percentage of the transaction total. The DPI is multiplied by the number of sales, then added to the discount % rate multiplied by the number of sales to calculate the total discount fees owed.

Processing fees

$ or $$ or $$$

These go to: Payment processors
This is what your processor charges for the ability to access the credit card authorization network necessary for processing transactions and for value-added services like PCI compliance assistance, EMV capabilities, etc.

Other fees associated with payment processing vary by processor. Some common miscellaneous fees include:

- **Chargeback fees:** The fees you have to pay to return the customer's money to their account due to a chargeback
- **Setup fees:** One-time fees to get your account started with the processor
- **Non-sufficient funds fees:** These are charged should you not have enough money in your bank account to cover the payment processor's charges

Keep in mind that there could be equipment costs – either as an initial cost or as a rental fee, depending on your situation.

Interchange is the bulk of what you pay — you can't control that. **But you can control the pricing structure and processor you work with.**

Payment processors don't receive any portion of interchange fees, dues and assessments, discount per item (DPI), and discount % rate fees. Unfortunately, some processors will add inflated costs, markup or hidden fees to what they charge. Being choosy when selecting a processor and considering the right pricing structure for your business and its goals are the first steps in controlling your costs as much as you can.

Unlike other payment processors out there, Heartland passes through the true wholesale cost to merchants without any extra padding.

How to choose the right pricing structure for your business

Now that you know what you're paying — and who it goes to — we can talk about pricing models.

Since payment processors don't keep any part of interchange, the fees they collect for the service they provide can vary. Some processors add markup fees to each payment (Heartland doesn't) — and what you pay to your processor can vary based on the pricing structure of your processing contract. Let's walk through the four pricing structures you're likely to encounter and the pros and cons of each.

Interchange-plus pricing aka "cost-plus pricing"

This structure is widely considered to be an industry standard. The descriptive name tells you what the processor does: charge a small fee in addition to interchange. This is usually a percentage amount (think 0.4% of the transaction amount) and a flat fee per transaction ($0.09). You'll also have monthly fees associated with any services or subscription add-ons you get from a processor.

This is the only pricing model where you'll only pay for the amount you process.

Pros	Cons
It's easier to compare rates between processors and see where your money is going — especially if your merchant statement is transparent.	It's complex — some processors go out of their way to be as non-transparent as possible, padding interchange with hidden markup.
Some transaction types are more affordable — like debit — and the savings are passed on to you.	Some transaction types are pricier — like rewards or elite cards — and can make certain transactions cost more than a flat rate fee.
Interchange fees are returned on customer refunds.	Not all businesses will qualify for this type of processing.
You can save money if you process a high volume of transactions (5k-10k per month).	It can be hard to budget and forecast your costs — it's nearly impossible to predict the amount of transactions and type of cards you'll encounter, so predicting your monthly costs is difficult.

Flat-rate pricing

The name on this one gives it away, too. There are two types of flat-rate pricing. One, where the interchange and processing fees are bundled, and the other, where the processing fees are flat rate, and then they add interchange fees to that. Although, it's important to note that there may be many different "flat rates" since most processors don't offer a single flat rate. Square, for example, has at least three different rates based on whether you accept a card in person, over the internet, or by manually entering the card information.

Pros	Cons
It's easy to understand — no matter what card you accept, you're paying the same fee.	It's hard to compare processors because interchange rates for your transactions and the processor markup aren't itemized separately. You can't effectively shop for better processing prices when you don't know you're overpaying.
It's predictable — it may be easier to budget and forecast your processing costs because of the simple fee structure.	You'll pay more for certain transactions. While it's likely you'll pay less for transactions with premium cards (American Express, rewards cards), it's also likely you'll overpay for lower-cost transactions with debit cards, etc.
If you're a smaller business and have lower processing volume overall, it's likely you'll spend less on processing than you would under a different pricing structure.	If you process a high volume of tickets, even if the average ticket amount isn't high, you may spend more on processing than you would under a different structure.
It may be easier for some businesses to qualify for this type of pricing structure.	You won't get interchange fees back if a customer issues a return.

Tiered pricing

An older processing model, this type breaks transaction types into three groups depending on the card type and level of risk a transaction presents: qualified, mid-qualified, and non-qualified. Each group has a different rate.

Pros	Cons
Easier to understand — you know what you're paying based on the transaction type.	It's hard to compare processors. Like with flat-rate, you'll have a hard time knowing your true costs because the interchange and processor fees are blended and less transparent.
In theory, if you only accept cards in person (never keyed-in over the phone or online) via EMV-enabled card readers, and don't often accept corporate or rewards cards, you could save money by having mostly qualified transaction assessments at the most favorable rate.	It's hard to predict pricing because you don't have control over the type of cards customer use, and processors have the ability to determine and change which tier a transaction will fall under. Damaged chip cards and/or card readers that result in card swipes or keyed transactions will be processed at the highest non-qualified rate and can quickly drive up costs.

Subscription or membership pricing aka 0% processing

This is a version of interchange-plus pricing where the processor charges two fees, a monthly membership fee for the service and a flat-rate transaction fee.

Pros	Cons
It offers a "simplified view" of interchange-plus	Businesses with high transaction volume or larger ticket transactions may save money over interchange-plus pricing.
You can compare processors between interchange-plus and subscription plans because of similarities.	Monthly subscription fees can be on the expensive side (think $75 to $150)

Things to consider when selecting (or shopping for) a pricing structure

- ☐ How many transactions do you plan to complete in a month?
- ☐ What is an average ticket for your business?
- ☐ Are there any trends in how your customers pay?
- ☐ Debit vs. credit cards
- ☐ Card brand types
- ☐ How will you take payments?
  - ☐ In-person
  - ☐ Online
  - ☐ Over the phone

How to choose a credit card processor

Payment processing is likely to be one of your biggest business expenses aside from labor, product costs and rent. It's really tempting to go with whichever provider can get you up and processing cards ASAP. Before you lock yourself into a one-to-five year processing agreement (that likely comes with a pricey early termination fee clause), consider shopping around and evaluating where you're likely to get the best processing rates, tech and hardware that will meet your business' needs.

We know your time is precious — but it's OK (and smart!) to take time to shop around. If you're already working with a processor, it's a good idea to evaluate what you're getting for the cost routinely — and potentially negotiate, if possible.

Your payment processor interrogation checklist

Just kidding, we're not suggesting you be Perry Mason or Veronica Mars. But you should investigate your potential processor and understand what you're getting into. As the saying goes, there are no stupid questions!

- [ ] **What pricing structures are available to me?**
- [ ] **What fees exist with your platform?**
  - [ ] As discussed, payment processors can impose various fees that you may or may not be aware of. **Do you have hidden fees?** or **Do you pay interchange?**
  - [ ] **Are different fees associated with different card types or payment types (for example, if a customer is using Apple Pay)?**
  - [ ] **Explain your chargeback fees and your chargeback process.**
- [ ] **How long do payouts take?** You will want to know how long the transaction process will take from start to finish. Having this information will help you in preparing cash flow projections, and the time it will take for various payment methods to fully process.
  - [ ] **Do they offer things like instant or same-day deposits?**
- [ ] **What is the contract length? Long-term, monthly...?**
- [ ] **What hardware would I need?**
  - [ ] You should understand what types of hardware are required to run the payment processor and if they provide these tools or if it is something you need to purchase to make the payment processor.
- [ ] **Is your merchant statement transparent, showing where every penny goes?**
  - [ ] Ask for a sample merchant statement for you to review.
- [ ] **What kind of customer support do you offer?**
  - [ ] **Is it right for your business?**
  - [ ] **Can you quickly get a question answered by phone — or will you be required to use online resources first?**
- [ ] **What security options are available?**
  - [ ] **Will they validate your PCI DSS compliance with the processor or will it expect you to find a vendor on your own (which can be expensive)?**
  - [ ] **What is their expertise in fraud management?**
  - [ ] **What fraud prevention measures has the processor built into their system for ongoing prevention?**
- [ ] **Ask about any tax benefits that the processor supports,** especially regarding compliance and reporting requirements for your business. For example, if the payment processor can generate reports for specific filings, this would be a huge advantage.

Security and payment processing

We've probably all heard the saying about how great power comes with great responsibility. When you decide to leverage the power of credit card acceptance, you're signing a contract with a processor, potentially buying or renting hardware and taking on responsibilities related to security. You're probably thinking — more responsibility as a business owner? But there's a surprise benefit at the end!

PCI compliance

The Payment Card Industry (PCI) Security Standards Council, which includes Visa, Mastercard, American Express, Discover and JCB, created the PCI Data Security Standards (PCI DSS) to protect sensitive cardholder data from falling into the hands of fraudsters and thieves. PCI DSS are the security standards that businesses must follow to reasonably care for and safeguard cardholder data.

By accepting credit or debit cards, you enter into a merchant agreement with the major card brands and you agree to consistently maintain PCI compliance to protect cardholder data. A key aspect of PCI DSS compliance for small businesses is using fintech equipment that meets the Council's security standards for technology applications like point of sale systems.

Make sure your payment processor minimizes your liability by encrypting card data during the transaction process and using tokenization for stored data.

Failing to comply with PCI DSS can be devastating to your business: A whopping 60% of small businesses will go out of business within six months of a data breach. The average cost to a business after a data breach is $200,000. This number includes the costs for:

- Forensic investigation into the data breach.
- Fines and penalties from the payment processor and financial institution, which can vary depending on the business' size and the scope and duration of the non-compliance. (Fines can vary from $5,000 to $100,00 per month.)

EMV chip card acceptance

Europay, Mastercard and Visa (EMV) are the three companies that banded together in 2015 to establish new standards for in-person credit and debit card security and fraud reduction. Pull out any chip card in your wallet — that's an EMV card that only carries the protections chips offer when it's processed through a proper EMV-enabled terminal or card reader.

If you don't use EMV-enabled hardware, you're putting yourself at risk for liability. Before EMV, if a fraudulent card-present transaction was successfully executed with a stolen credit card, liability for that fraud fell to the credit card issuer. The business essentially kept the money earned on the fradulent transaction.

Those days are long gone. Since 2018, if there is a fraudulent card-present purchase with a chip card (and you swiped or keyed in the card rather than processing it with an EMV-enabled device), you'll be responsible for refunding the legitimate cardholder and paying fines (not to mention the loss of the value of the product or service that the fraudster got away with).

How processors can help you be compliant

Using a processor that makes it easy to maintain PCI compliance and reduce your fraud liability with EMV tech can give you peace of mind and save your business from the devastating effects of non-compliance. Heartland offers access to Sysnet, our trusted partner for validating PCI compliance. Many payment processors expect you to find a vendor on your own, which can be expensive. Additionally, part of processing with Heartland includes enrollment in the Merchant Protection Plan, which covers you up to $100,000 in the event of a data breach.

If you're currently getting hit with fees for PCI non-compliance or EMV non-acceptance fees by your processor, it may be time to update your POS equipment. Investing or renting a secure, EMV-enabled POS or getting EMV hardware add-ons may seem like a hit to the budget, but will pay for itself over time with the fees you won't pay and the fraud liability you'll avoid.

Use a provider that helps you maintain PCI compliance and offers EMV-enabled tech and chip card processing, and all will be well! **Plus, there's a fringe benefit to maintaining PCI compliance: You may reduce your processing costs by up to $1,500 per year.**

Choose a processor who can help you succeed

There's a lot that goes into choosing a payment processor and payments tech. But as a small business owner, you know your business better than anyone else. Stay grounded in your business' goals and your customers' needs — and you'll find your way to the right solutions.

Consider partnering with a provider who can offer you:

- Payment processing that's transparent and gives you the insights you need to save on your processing
- The secure payments technology to accomplish all your goals
- The processing pricing structure that's advantageous to your business' processing habits

We mean it when we say we want small business owners to succeed

If you're with a processor now and you're concerned you're overpaying or just have questions, we're happy to look at your existing statement and give you a competitive rate review.

We want to answer any questions you may have about pricing structure, and which would be most advantageous for you — and help you determine if Heartland is right for you.

Nearly 1,000,000 entrepreneurs trust Heartland to provide the technology to run and grow sustainable businesses — technology to make money, move money, manage employees, and engage customers. We develop tools to help entrepreneurs respond to market changes and stay competitive. We know it's not enough to just look good and have fancy features. That's why Heartland delivers human-tech across all of our solutions, service, and support. All designed to help entrepreneurs overcome the challenges encountered every day. Learn more at heartland.us.

Heartland

heartland.us