

They Succeed When You Fail: Rethinking Processors And Gateways

Here are the four tips you need to know to safeguard your revenue from large merchant banks.

by J. David Oder

Watching the payments industry recently has felt a little bit like watching “Shark Week.” Every time you turn around some big bank is either buying a processor or gateway, or creating a gateway of its own. Now we hear that Visa, a card brand, has spent \$2 billion purchasing Cybersource, a predominantly e-commerce processor/gateway/merchant services provider. The market space is consolidating, and it is certainly a time of change — but one that may bear dismal consequences for merchants.

As processors or gateways are absorbed by large merchant banks and now even card brands, they find themselves in a catch-22. They must be loyal advocates for their merchants while remaining loyal to their parent company. What does a loyal employee do for their company? Well, 99% of the time, they boost profits or cut costs. The problem is this: merchant banks typically make higher profits on processing by charging more money in the form of downgrades of the contractual discount rate. These downgrades come as “penalties” for not processing a payment in the prescribed way.

Processors have always made more money as downgrades increased and discount rates climbed. However, some in the industry realized it was in their best interest to help the customer maintain a low discount rate in the name of client satisfaction. These merchant advocates, usually gateways, were willing to sacrifice profits to increase loyalty. They scoured the lengthy merchant agreements and identified the obfuscated trivialities, which lead to downgrades. Then they made that information available to their merchants.

This new affiliation between processors, gateways, and merchant banks has made that extra level of service almost unheard of. Merchants need an ally in this process, someone to help them keep costs down and succeed in difficult and demanding times. Their processor or gateway ought to be that advocate, but as they are acquired by merchant banks they are edging away from that responsibility.

With that in mind, here a few tips I have learned in my more than 20 years in payment processing — tips that my company shares with our clients as part of a staunch commitment to merchant advocacy.

Make sure you are set up for the correct merchant type. You must have a merchant setup for card-present transactions for your store and for card-not-present for your website.

Make sure you settle your transactions on a timely basis. For retail, that generally means within 24 hours. Late settlement can mean downgrades and higher costs. Remember, you must settle every day but Sunday. Those that leave Friday and Saturday settlements until they get in on Monday morning are paying a lot higher fees.

Make sure what you settle is accurate. If you settle transactions that are duplicated, overcharged, or just inaccurate, you face a very high risk of your customers going to their bank to ask that the transaction be charged back. Many merchant banks or their processors charge their merchants a fee just for issuing a chargeback. Not only is this expensive, the labor to respond to chargebacks can also affect your bottom line. Another issue here is that if you charge too much or double ring and you have to issue a credit, many banks make you pay the discount rate on the original charge and never give you back the discount rate on the credit. Accurate settlements can save you a lot of money.

Always use Address Verification System (AVS) and the Card Security Code (CSC) on every transaction where you can't get a swipe. Every time you neglect to, your discount rate will go up. All e-commerce and non-card-present systems should support AVS and CSC, and good POS systems for card-present transactions support AVS should they be unable to get a good swipe.

Hopefully these tips will help you keep your revenue where it belongs — in your bank account, not in your bank's pocket. ■



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