

# Are Credit Card Processing Fees Cutting Into Your Profits?

BY BROGAN BAXTER



Are you paying too much to process your credit card transactions? Are you sure? When working with our clients, we take a proactive approach to lowering their overhead by overturning every stone as a part of the process. A little over two years ago, we came across a company called Dental Card Services in an article in the Collier Advantage newsletter – [www.collieradvisors.com](http://www.collieradvisors.com). The article focused on transparency in credit card processing and the benefits of interchange cost plus pricing. If this and the following terms are Greek to you, rest assured you are not in the mi-nority, and you, like many other dentists, are most likely greatly overpaying for your credit card processing. By understanding these terms and requesting a simple analysis, you may just find that you've been leaving easy money on the table.

# Key Processing Terminology

## THERE ARE FOUR TYPICAL PLANS IN THE INDUSTRY.

### SURCHARGE PLANS.

Surcharge plans utilize a low teaser rate (a.k.a. "quali-fied rate") and then surcharge / downgrade transactions that do not meet the qualified definition. As a result, dentists on these plans typically have statements that show a low qualified rate and a much higher effective rate. The statements generally lack the detail to determine your actual rate. As a result, you will need to do some math to figure it out.

### FLAT RATE PLANS.

Flat rate plans are simple but typically costly. Under a flat rate plan, you get one rate against all the volume. Due to the structure of this plan, the processor is fixing the rate they charge the practice and is on the hook for the actual costs. As you might imagine, they typically price these plans well above their worst-case scenario and include a nice markup as well. Another downside is the statements under these plans generally have no detail, the same detail needed to determine the actual costs and markup. When comparing effective rates, the flat rate plans are often better than tiered and surcharge, as you know the exact downside in your costs; but you are still leaving money on the table.

### TIERED PLANS.

Tiered plans are much like surcharge plans. They leverage low teaser rates for qualified transactions to get your business. What makes tiered plans unique is that they are designed to make your lowest cost transaction more expensive and your highest costs transaction even more expensive. How do they do this? First, most tiered plans do not incorporate a separate low cost rate for regulated debit transactions that now cost less than 0.50% (typical markup included). Often these plans include this transaction type in the same cost bucket as qualified credit/debit transactions (bundled). The result is you grossly overpay for a transaction type that is the lowest cost in the industry. Second, the effective rates charged from mid-qualified and non-qualified are non-competitive, especially when you compare them to the actual interchange costs.

### INTERCHANGE COST PLUS PLANS.

Interchange Cost Plus Plans are plans in which the actual Visa, MasterCard, and Discover interchange rates and item fees are passed directly through to the merchant at wholesale costs including dues, fees, and assessments. The cost plus portion of the plan provides a consistent markup across all transaction types so there is no incentive to have a merchant transaction be downgraded (non-qualified). The other advantage is these plans show on the merchant statement the line item detail to see how much each transaction costs by interchange category and the

processor profit / markup is clearly listed on the statement so you can see how much the bank, processor, channel partner, etc. is making.

If your dental practice is NOT on an interchange cost plus credit card pro-cessing plan, it should be. Why?

We discovered that over the last five years, Dental Card Services has had the opportunity to analyze credit card processing statements from dentists across the country. The findings are generally the same.

1. The dental practice is often processing their credit card transactions through their local bank or a "friend" of the practice. Usually these trusted relationships were long-standing - often 5+ years.
2. 90+% of the time (yes, that number is real), the dentist is on a high-cost surcharge or tiered credit card processing program and the den-tist can save, on average, 30% a year by switching.
3. In addition to an incredibly wide range of pricing, the terms and condi-tions varied greatly - with some firms having termination penalties of up to \$2,500 and others not having them at all. Furthermore, some practices were leasing terminals that cost \$25 to \$50 a month for up to five years. These terminals typically cost \$200 to \$300 to pur-chase new.

We were impressed to find a company that was willing to remove the mys-tery behind these fees and elated to learn that this company was also den-tal industry specific. After careful consideration by both parties, we part-nered with Dental Card Services to conduct a credit card processing benchmarking study for some of our clients.

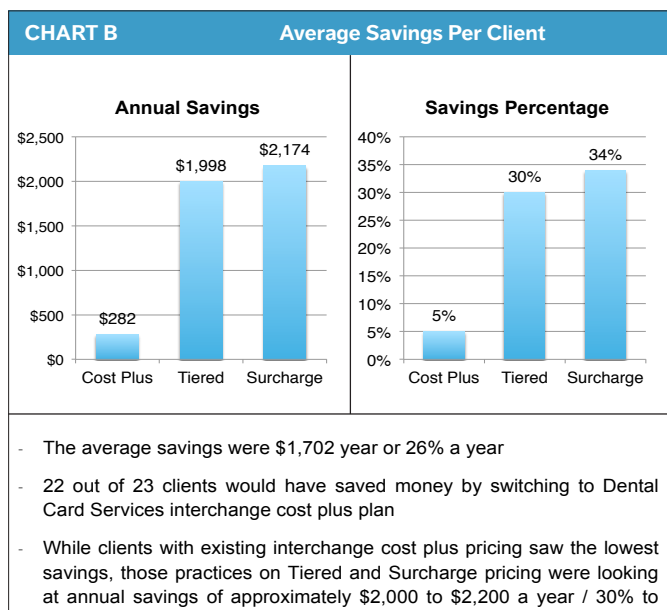
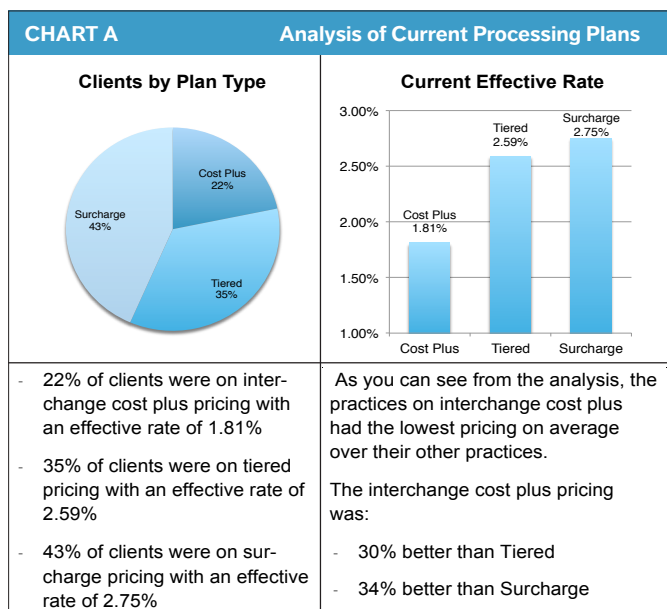
## FOUR QUADRANTS ADVISORY – CLIENT SURVEY RESULTS

Our internal accounting team collected, sanitized, and delivered 23 pro-cessing statements from a sampling of our clients across the United States to Dental Card Services. They found that the participating clients on aver-age processed \$21,979 a month in volume (Visa, MasterCard, and Discov-er) and were paying an effective rate of 2.44%. The effective rate is the to-tal fees divided by the total volume in a dental practice. To keep the analy-sis consistent, American Express transactions were excluded from both the volume and fees for practices that accept American Express. While we were happy to see that their average was 2.44% versus other industry benchmarks that were typically around 3.00%, we did see a sizeable dis-crepancy across practices with effective rates ranging from 1.49% to 3.62%. The obvious questions were:

- Why are some practices paying 2x more than others?
- Why such a broad distribution?

There is a natural difference in practices between card types used (credit or debit); the manner in which they are used (swiped or not-swiped); and the level of the card (standard, rewards, or business) but these differences alone would not generally account for such a large discrepancy.

They dug a littler deeper for us and looked at the plan types for each of the practices and the resulting fees to see if they could discern a trend that would benefit our clients. You'll see their findings in Chart A below:



## RECOMMENDATION

My recommendation, in most cases, is that dentists switch to a low-cost, interchange cost plus plan. While we have worked successfully with Dental Card Services, there are certainly other firms that provide this service and below are a few suggestions you may find helpful if you're ready to explore other options.

1. When asking processors to quote you a price – do not send them your statement. Ask them for their proposal first with all the terms and conditions in writing. If you don't do this, you will increase the probability of the following two things: 1) a savings analysis that gets you the bare minimum amount of savings needed to get you to switch, while the processor keeps the difference and 2) the same type of plan structure you have, whether it's the best for you or not.
2. Only do business with a provider that puts your best interest first. This is such an important, albeit difficult, point to determine. To do this appropriately, ask the provider to treat you like a blank slate by making the recommendation that they feel is the best recommendation for you. Is it a interchange cost plus plan or a higher cost plan that benefits the provider more than you? This should tell you whether they are concerned about your relationship or their profit margins. If a company goes through this work for you and it's better and more affordable, reward them for doing the work by giving them your business. You may be inclined to go back to your current provider to match because it's convenient, or you have a longstanding relationship with them, but why reward a company that took advantage of you for all those years? You need to hold them accountable for their poor service.
3. NEVER sign up for a lease and NEVER sign an application and/or contract that does not explicitly waive any and all early termination fees and/or penalties. I see this all of the time...so if this happens, run the other way.

Hopefully, this article will enable you to put your current provider to the test. Maybe you'll find some savings along the way like our clients did. Every little bit helps when you are talking about overhead and profitability.



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Brogan Baxter is the Chief Operating Officer and senior analyst at Four Quadrants Advisory Companies, a national accounting, financial planning, and advisory firm working solely with dentists and specialist in over 30 states. They are the only dental advisory firm in the nation with a money-back guarantee on their services. To learn more, please visit [www.fourquadrantsadvisory.com](http://www.fourquadrantsadvisory.com)