

# Are Processing Fees Draining Your Practice Profits?



**U**nderstanding the intricacies of credit card processing fees is essential for any dental practice looking to strengthen its financial performance. While many practices focus on patient volume or new technology, few take time to analyze merchant processing costs—an often-overlooked but significant expense. Knowing how these fees are structured and what drives them enables smarter financial decisions that directly impact profitability.

## Shifting Fee Structures

An emerging trend among processors is the quiet restructuring of fees, often through incremental increases or new categories designed to capture additional revenue. Dental practices, particularly those relying on integrated credit card systems tied to their practice management systems, may be especially vulnerable if these changes go unchecked. Benchmarking your costs against industry standards can reveal opportunities for meaningful savings.

## Know Your Effective Rate

A key metric in credit card processing is your effective rate. If you don't know yours offhand, you're not alone. Yet taking just one minute a month to calculate it can quickly flag issues such as fee increases or an unfavorable transaction mix.

At Dental Card Services (DCS), we analyze dental processing statements daily and see 3 common causes of rising costs: your processor increased fees after sign-up; your processor introduced new fee categories; or your practice began accepting virtual credit cards from insurance payors, which often carry much higher costs.

As a benchmark, a low-cost credit card processing effective rate typically averages around 2%, though this can range from 1.5% to 2.5%. The variance is typically driven by your volume, your processing environment (card present vs card not present), and your card mix—debit cards being the least expensive and consumer

high-level rewards being the most expensive. In the past year, we've seen many practices that use practice management systems for integrated processing paying effective rates above 5%, and in some cases over 8%.

Business owners should know the cost and then decide whether to make a change. For those reluctant to make a change, I typically ask 2 questions: Do you know how much dentistry you have to produce to cover the incremental cost? At what cost would you switch?

## Two Simple Steps to Lower Costs

- 1** Request written quotes from several providers without sharing your current statement. Look for transparent, low-cost interchange cost-plus plans with no early termination fees.
- 2** Periodically calculate your effective rate and take corrective actions as necessary.

## The Rise of Patient Surcharging

A growing number of practices are introducing patient surcharging—passing along credit card fees to patients who choose credit over debit. In one recent case, a DCS client lowered its effective rate from 3.07% to 0.81% in a year after implementing a surcharge. Debit card use increased by 46%, while processing costs dropped nearly 50%. Across the industry, fewer than 5% of dental practices use surcharging, though adoption is rising among both independent and DSO practices.

By understanding fee structures, tracking key metrics, and staying informed on trends, dental practices can keep more of what they earn and make smarter financial decisions moving forward.

## THE DENTAL DRILLDOWN

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