

Reading a Merchant Processing Statement

1. Calculate your effective rate

Many merchants read their processing statement to find out exactly what they're paying in credit card processing fees. The easiest way to accomplish this goal is by finding your effective rate. Your effective rate will give you an overall idea of what you're paying based on the hard numbers in your statement.

To find your effective rate, divide the total fees charged by the total processed volume and then multiply the result by 100.

For example, if your business processed \$30,561.36 and was charged \$870.99 in processing fees this month, then your effective rate would be: $(\$870.99/\$30,561.36)*100 = 2.85\%$.

This means that on each transaction, you effectively paid 2.85% in credit card processing fees. This number might not reflect the exact percentage you're being charged, but it gives you a very good estimate.

After calculating the effective rate, many merchants wonder if they're being charged too much. This is where you'll have to do your research and some comparison shopping. Credit card processing is affected by dozens of different factors—from industry type to the environment a card is processed in, to the whims of the card brands, to risk level. Therefore, there's no baseline for a "good" rate or a "bad" rate. A high-risk eCommerce brand that exclusively sells online will always have a higher rate than an established retail store that uses in-person payments. It's up to each merchant to research the factors that impact their credit card processing rate and determine what they can do to mitigate costs. Calculating your effective rate is the crucial first step in that journey and will empower you to move forward with relevant knowledge.

2. Determine your pricing model

There are three main pricing models that processors use to charge their customers: tiered, flat rate, and interchange plus. If you're not sure which pricing model your business is subject to, you could either ask your processor directly or read your merchant processing statement.

Tiered pricing

Tiered pricing, or bundled pricing, is the least transparent and often most expensive pricing model. This model buckets each credit card you process into predetermined categories that affect the cost of running the card.

Depending on several different factors, including risk level, credit cards are pre-sorted into three categories: qualified, mid-qualified, and non-qualified. Qualified cards carry the lowest risk of fraud and are therefore the least expensive to process. On the flipside, non-qualified cards carry the highest risk of

fraud and are the most expensive to process. And mid-qualified cards fall somewhere in the middle.

With a tiered pricing model, merchants can't see which transactions and cards are qualifying or not. Their merchant statement doesn't list each individual transaction; rather, it only shows the total cost for each tier (qualified, mid-qualified, and non-qualified.) Therefore, merchants can't drill down to see which cards are not qualifying, and they don't have the ability to change the way they process those cards to ensure they do qualify. If you read your merchant processing statement and discover you're on a tiered pricing model, it may be time to switch.

To find this pricing model: Look for the keywords "qualified," "mid-qualified," and "non-qualified" on your statement. Sometimes these terms are shortened to "qual," "mid qual," and "non qual."

Interchange +

If you prefer to see each fee itemized on your statement, then interchange-plus might be a better fit for your business. Interchange plus, also known as pass-through or cost plus, offers complete transparency and allows merchants to see exactly how much they're paying in base costs and markup each month.

Interchange fees are imposed by card brands, such as Visa, MasterCard, and Discover. These fees are designed to cover the cost of any fraud, risk, or debt that the card brand may incur from customers using credit cards. Interchange fees, along with assessment fees, are set by third-party entities and make up the base cost of processing credit cards. (We'll go into more detail with base costs below.)

Neither merchants nor credit card processing companies has any control over interchange fees—they're entirely controlled by the card brands. Interchange fees make up the bulk of credit card processing fees.

In an interchange-plus model, merchants pay interchange fees, which vary from transaction to transaction, in addition to the credit card processor's markup. Typically, the markup stays the same across all transactions.

Because interchange rates vary from transaction to transaction, merchants don't pay a consistent processing rate. This is why calculating your effective rate can be helpful: while every transaction has a different rate, your effective rate can give you an idea of your average credit card processing rate across all transactions.

Interchange models require more due diligence on the part of the merchant to regularly examine their statement and evaluate interchange rates, but if you're willing to do the work, then interchange offers complete visibility.

To find this pricing model: Look for an itemized list of interchange fees.

Flat rate

Merchants who choose a flat rate model will lose some visibility on their merchant statements. Because flat rate models work by charging merchants a flat percentage rate on all their transactions, you won't be able to see any interchange costs, and thus you won't be able to calculate the markup. Some merchants prefer this approach, as it simplifies the process and gives them peace of mind knowing that they're paying one consistent rate on all transactions.

In this model, the interchange rates vary on each transaction, but the markup adjusts to create one flat rate.

To find this pricing model: Your merchant statement will likely be simple, easy to read, and won't include an itemized list of interchange fees.

3. Determine wholesale/base costs

Every credit card processing company charges both a base cost and markup costs. The base cost is made up of two things: interchange fees and assessment fees. Both fees are imposed by third-party entities and are non-negotiable. Neither the merchant nor the credit card processor has control over this base cost.

However, the credit card processor also charges markup, which is how they make their profit. Of course, some markup will always be necessary, as this is how credit card processors make money. Fortunately, the markup is negotiable, and this is where merchants have the most wiggle room in securing lower credit card processing costs.

To find the base cost, add up the total interchange and assessment fees.

Unfortunately, base fees are not always itemized on your statement. Depending on your pricing model, your interchange fees won't be visible, so you won't be able to calculate the exact base cost. For example, merchants who are on a flat-rate pricing model won't be able to see interchange rates.

4. Calculate interchange costs to determine your processor's markup

If your business is on an interchange-plus pricing model, then you can calculate your total interchange costs, deduct those from your total fees, and find your processor's markup. Again, the markup is what the processor charges above and beyond fixed base costs. The markup is how the processor makes a profit and stays in business, and it's the only factor you can negotiate to try and get lower processing costs.

Your interchange costs will likely be listed on your merchant statement next to the card brands' names: Discover, American Express, Visa, etc. Every transaction will have a different dollar and percentage cost, as interchange fees vary with every card processed.

Add up all your interchange costs. This dollar amount shows you how much your business pays to the card brands each month. As a reminder, these fees are fixed, imposed by the card brands, and can't be negotiated. Your processor has no control over these fees.

Next, subtract your total interchange costs from your total fees charged. This should give you your processor's markup.

Once you've determined your processor's markup, you can use this information to advocate for your business or comparison shop. If you're unhappy with the amount your processor is charging in markup, you can reach out to them to go over the numbers. In some cases, your processor will provide clear, detailed information about each fee and charge on your statement and may be willing to negotiate a lower fee with you. In other cases, your processor won't want to go into details with you, and it might be time to shop for another, more transparent processor. However, if you do choose to switch to a new processor, you'll be armed with the knowledge of your current processor's markup, which you can use to ensure you get a comparable or lower cost.

5. Monthly vs. daily discount model

There are two main types of billing cycles that processors use to bill merchants: monthly discount and daily discount. It's helpful to distinguish which billing cycle you're on because it affects how your total costs are calculated each month.

On a monthly discount billing cycle, the processor charges all fees in a lump sum at the end of the month. Monthly discount billing cycles are much more straightforward and easier to understand than daily discount billing cycles.

On a daily discount billing cycle, the processor charges your fees daily, typically by deducting them from each batch settled at the end of the day. When calculating your overall fees for the month, don't forget to add these daily fees to the total.