



P3 Cost Analysts®

The Ultimate Guide to
**Reducing Your
Merchant Processing
Costs**

Reducing Your Merchant Processing Costs

Any business that accepts credit cards or other electronic payment methods works with a merchant processing provider. Also known as payment processing providers or credit card processing providers, these third-party entities are the middlemen between you (the merchant) and card-issuing banks.

Without knowing any better, most businesses shop around for the best processing rates and think that's all they can do to minimize costs in this area. But, only around 20% of possible savings for customers come from negotiating better processing rates.

The real savings on merchant processing services can only be uncovered through a detailed merchant processing audit.

To better understand how you can start cutting merchant processing costs, we'll take an in-depth look at the moving parts of this industry, why there are savings to be found, and how P3 Cost Analysts bring these savings to our clients.





Merchant Processing Industry Overview and Pricing

The merchant processing industry is foundational for the facilitation of credit/debit card and other electronic payment transactions across the world. There is a vast amount of merchant service providers, and depending on the size of your company and the tools or services the providers offer, some will be a better fit for your business than others.

Though the services offered by merchant processing providers are pretty similar across the board, fees vary from provider to provider, and so does the level of customer service. Both factors need to be considered when choosing a provider you can rely on.

The Role of Merchant Processing Providers

Any time a business accepts a card payment, the card information gets sent to the merchant processor who then directs the transaction data to the card-issuing bank (the customer's bank) for approval. Once approved, the processor receives confirmation and directs funds to your merchant account within the acquiring bank.

As you can imagine, this transaction process involves many data exchanges between banks, card companies, and merchant processors. As we'll see, each link in this chain has criteria by which they base their charges and fees. By understanding how you are charged for these services, you can start to optimize spending in this cost category.

Main Pricing Variables

Merchant Processor Transaction Fees:

The transaction fees charged by a merchant processor are what most customers think of when considering fees in this cost category. Whenever a business takes payment that needs to be processed, there is a fee that is paid to the merchant processor. The merchant processor sets these rates based on the margin of profit they want to receive after they've paid out interchange fees to card-issuing banks.

Interchange Fees:

An interchange is a set of qualifications and categories that credit card companies use to define the fees and rates for various types of card transactions. There are many factors that determine these interchange fees including, but not limited to:

- The size of your business
- The type of business you operate
- Size and volume of transactions
- The types of cards you accept
- The types of payment gateways you use
- Your Standard Industrial Classification (SIC) Code

To clarify, these interchange fees are set by the card associations and not the merchant processing providers. The merchant processor initially pays these fees to the card-issuing banks, but then these costs ultimately get passed on to the merchant by the processor.



Why There are Savings and How P3 Brings them to Customers

Interchange Optimization

The most significant possible savings in this cost category comes from interchange optimization. With so many different interchange categories and other qualifications, it's common for merchants to be functioning within categories that have higher rates than they actually need to be paying.

At P3 Cost Analysts, we look for situations where merchants can qualify for incentivized or reduced interchange programs based on their SIC code. We seek out solutions merchants can implement that will help them qualify for the lowest interchange possible. Furthermore, we know what the bare minimum margin tolerance merchant processing providers will accept, giving us the insight needed to get the best interchange rates possible.

For Example:

If you own and operate a fitness studio, you have a specific SIC code for that type of business. But, since you also teach at that studio, you qualify for a special educational interchange category that can reduce your interchange costs.

The average owner would not know they qualify for this interchange because it's not directly communicated to the owner by the merchant processing provider.



Another way we can optimize interchange fees is by prescribing better payment gateways for merchants. A gateway is a device merchants use to take payment, and each type of device sends certain kinds of data. This data is defined as level 1, level 2, and level 3, with level 3 being the most detailed kind of data. Every time you can process higher-level data, you get a reduction in interchange fees.

With the right gateway, merchants could potentially process level 3 data when they were only processing level 1 or 2 data previously.

Example:

We worked with a B2B construction materials company that was only clearing transactions at levels 1 and 2. We were able to help them implement an off-the-shelf level 3 solution that ended up saving them over \$30K per month in transaction fees without having to change their merchant processing provider.

Merchant processing fee negotiation:

Since we have deep knowledge of industry benchmarks and pricing, we are typically able to negotiate better rates with merchant processing providers. As mentioned earlier, these negotiations only make up about 20% of possible savings.

Eliminating fake fees:

In some cases, merchant processing providers add on fake fees and costs that can be disputed and reimbursed to merchants.

Chargeback fees:

If a merchant has a lot of disputed transactions, these chargeback fees can start adding up quickly. With our expertise, we are able to work with the merchant to reduce the losses from these chargebacks.

Prescribing alternative payment methods:

In cases where the merchant has a lot of recurring transactions, we can implement ACH solutions that clear transactions at a much lower cost than credit cards. This is a good way to eliminate certain credit card transactions and reduce spending.

In rare cases, we'll help merchants use an aggregator such as PayPal or Square, instead of a traditional merchant processing provider when it makes sense.

Spotting and correcting padded interchange fees:

Some merchant processors will pad their interchange fee, meaning they are adding additional fees on top of the actual interchange costs. We are able to catch this practice in action by looking at a list of the published interchange categories and comparing them to the merchant processor pricing.

P3 Merchant Processing Auditing Process

Step 1: Engagement

After the execution of our shared savings agreement, we gather invoices and contract information from clients about their merchant processing provider. In this category, we are often able to obtain this information from the vendors directly, further saving the client time.

Step 2: Audit

During the audit phase, we do a thorough assessment of our client's interchange categories and merchant processing provider fees. Applying decades of expertise in this industry, we run all client expenses against our database of vendor benchmarks to be sure our clients have best-in-class pricing.

Step 3: Share our Findings

About 4–6 weeks after our initial meeting, we come back to the client with our findings and recommendations.

Step 4: Negotiation

Once our findings are approved, we work with the merchant processing provider to secure new agreements and set up the most cost-efficient program.

Step 5: Implementation

Once negotiations are complete, we implement our recommendations and then share in the cost savings with our clients.

Step 6: Contract Compliance and Bill Monitoring

During this phase, we monitor our client's invoices each month to ensure savings stay intact and providers honor the agreements and pricing.

Average Client Savings

With the help of P3 Cost Analysts, our clients are able to save 15%–20% on merchant processing costs.

Take a look at some of our previous case studies across various industries and locations:

Information Services Company – New York

Investment - \$0

Increased **Monthly** Cash Flow - **\$40,000** (avg per month)

No change in processors required

Wholesale Construction Materials Company – KY

Investment - \$0

Increased **Monthly** Cash Flow - **\$25,000** (avg per month)

Heavy Construction Machinery Equipment Sales, Service, Parts and Rental – Texas

Investment - \$0

Increased **Monthly** Cash Flow - **\$4,000** (avg per month)

No change in processors required

Commercial Truck Sales, Parts & Leasing - Pennsylvania

Investment - \$0

Increased **Monthly** Cash Flow - **\$8,000** (avg per month)

Software Development Firm – Virginia

Investment - \$0

Increased **Monthly** Cash Flow - **\$9,000** (avg per month)

No change in processors required

Health Care – TX

Investment - \$0

Increased **Monthly** Cash Flow - **\$6,000** (avg per month)

No change in processors required

Industrial Tool Supply - Washington

Investment - \$0

Increased **Monthly** Cash Flow - **\$6,200** (avg per month)

No change in processor required

Trade Show Display Company – MN

Investment - \$0

Increased **Monthly** Cash Flow - **\$3,000** (avg per month)

No change in processors required

No change in pricing required

Accredited Online Business School – California

Investment - \$0

Increased **Monthly** Cash Flow - **\$8,300** (avg per month)

No change in processors required

No change in pricing required

Non-Profit Organization – California

Investment - \$0

Increased **Monthly** Cash Flow - **\$17,000** (avg per month)

No change in processor required

Caterpillar & Heavy Machinery Sales, Parts & Repair – Tennessee

Investment - \$0

Increased **Monthly** Cash Flow - **\$5,500** (avg per month)

No change in processor required

No change in pricing required

Commercial Truck Sales, Parts & Repair – South Dakota

Investment - \$0

Increased **Monthly** Cash Flow - **\$3,100** (avg per month)

No change in processor required

No change in pricing required

Technical Trade School - Florida

Investment - \$0

Increased **Monthly** Cash Flow - **\$4,700** (avg per month)

No change in processor required

Plastic & Reconstructive Surgery Center – Minnesota

Investment - \$0

Increased **Monthly** Cash Flow - **\$4,700** (avg per month)

Processor change required

Wholesale Janitorial Supply – New Jersey

Investment - \$0

Increased **Monthly** Cash Flow - **\$1,700** (avg per month)

No change in processor required

Online Sales Collectibles – Wisconsin

Investment - \$0

Increased **Monthly** Cash Flow - **\$6,300** (avg per month)

Processor change required

Educational Training – Minnesota

Investment - \$0

Increased **Monthly** Cash Flow - **\$1,100** (avg per month)

No change in processor required

Construction Material Supply Company - California

Investment - \$0

Increased **Monthly** Cash Flow - **\$1,300** (avg per month)

No change in processor required

Industrial Bag Manufacturer and Wholesaler – North Carolina

Investment - \$0

Increased **Monthly** Cash Flow - **\$2,200** (avg per month)

No change in processor required

Plumbing Company – California

Investment - \$0

Increased **Monthly** Cash Flow - **\$1,700** (avg per month)

No change in processor required



Objections about Working with P3 Cost Analysts

In some cases, clients don't think they'll understand the savings we bring and therefore are uncertain about moving forward. We respond by highlighting the fact that we sit down with all of our clients to explain what the savings are and how we found them. We would never make you pay a savings invoice that you don't understand or agree with.

Other times, clients worry that they'll lose a sense of control over their systems and providers. They think that we could make decisions that they don't agree with. We respond by making it known that we will review any implementations or action steps with them before moving forward with our recommendations.

Lastly, some clients think working with us will take too much time. This has never been the case in our many years of merchant processing auditing. In fact, our clients typically spend less than two hours of their own time throughout the entire merchant processing audit.

Real Savings are Possible with a Full Merchant Processing Audit by P3 Cost Analysts

If you are a business or organization with a high volume of credit card or other electronic payment transactions, the only way you can effectively save on these costs is to hire someone in-house that has a tremendous amount of experience in the industry, or to outsource to professionals.

