

## **Accepting Credit Card Payments --- Is it Really Worth It?**

By: Dr. Rick Johnson

Do you accept credit card payments on your web site? Do you accept credit card payments against processed invoices sent to your customers? Do you have a store on your website that allows customers to purchase your products and pay for them instantly by using a credit card?

If you don't, you may be overlooking one of the basic best practices in marketing strategies. Strategies focused on customers buying habits, convenience and levels of comfort. Regardless of the value propositions presented by your company, people want to be comfortable with the way you handle their transactions. This is true whether they are ordering by phone, by fax, at your counter or from your website. Tread on their comfort level by not providing enough options and they will go elsewhere or limit the amount of product purchased from you.

During this economic time that is one scenario you can't afford to risk. Numerous surveys attest the fact that customers will buy more if their preferred method of payment is accepted by the vendor. If you currently do not accept credit card payment, you are missing an opportunity to grow your business and increase market share. You may be surprised by the increase in sales that you generate by simply promoting the acceptance of credit card payment both on your web site and at the counter. Don't miss the opportunity to increase sales if you accept orders at a trade show. Consider using a wireless terminal to process credit card payments on the spot. Credit card payment can also be accepted on normally processed invoices simply by including a pay button on monthly statements to your customers.

### **There is a Risk**

Keep in mind setting up a secure, customer friendly, and confidence inspiring site is essential for success. Customers have heard all the horror stories and demand for high security is a given. Your Processing Company must keep up on the latest technologies to protect merchants from fraud and charge backs.

### **How Do You Mitigate the Costs of Credit Card Payments?**

Credit card and processing fees add up and they can become very confusing. Merchant fees are a common term used but in actuality they are a series of fees that can vary depending on individual merchant account agreements. Utilizing merchant account services limits your reliance on outside payment processing services. However, the minute you begin accepting credit card payments on-line or otherwise you are staring a puzzle of processing fees right in the face. Besides having an internet merchant account if you accept payment on line, you need what is called a "shopping cart" to process your orders and payment. There are many options involved so do your homework. There is no single best solution to credit card processing. Your choice will depend on your particular needs and experience. Numerous fees are involved and each vendor involved is in business to make a profit which becomes a cost to you. These fees may seem like profit eaters if you don't really understand your internal costs and the concept of managing your cash flow. These fees may include any or all of the following:

- Application fee.
- Yearly membership.

- Set-up fee
- Gateway access fees.
- Monthly statement charges
- Discount rate.
- Address Verification Service (AVS)
- Fixed transaction fees (charged in addition to discount rate).
- Monthly minimums.
- Cancellation penalties.
- Chargebacks / reversal fees.

Because there are so many credit card processing fees to look for it is easy to misinterpret the fees and regard them as profit eaters without realizing the benefits of processing credit card payments and on-line sales. Let's look at the benefits of on-line sales and credit card payments.

#### **Advantages include:**

- **Customer convenience** - Online merchant accounts save the extra step of writing and sending a check or calling in an order.
- **Increased functionality** - Web sites become direct sales generators rather than simply lead generators or vanity sites describing your business.
- **Additional direct sales channel** - Credit card processing helps you add Internet sales as a revenue stream.
- **Immediate authorization** - With automation, you know immediately if a payment is valid. No waiting for checks to clear which improves cash flow; one of your most critical benchmarks.
- **Streamlines the payment process** - With Internet merchant accounts, there are fewer steps necessary to assure valid payment as compared to less automated processes.
- **Real Time Payment** -- Processing real time credit card payments (at the counter or based on electronic statements) minimizes if not eliminates credit risk as payment is automatic.

### **Should We Proactively Recover the Fees?**

Some distributors have suggested and in fact impose surcharges on credit card transactions. Thankfully, this is a rare exception to the norm since imposing surcharges on credit card transactions is illegal, and it will only lead to problems. Some distributors may try to recoup these fees by hiding them in "shipping & handling" charges. Other distributors believe the secret to beating the credit card processing system is not charging more for credit card sales, but instead is charging less for cash sales. These distributors utilizing merchant internet accounts operate on a tiered discount pricing grid and, ironically, believe the secret to beating credit card processing fees is to impose tiered pricing on the products for sale on the internet.

While charging extra for credit card sales is not recommended, you can charge less for cash/check as long as all prices are clearly stated to customers, and the cash price is reflected as a discount from the original purchase price. For example: if the price tag on an item states

that the item costs \$20, the cash price must be represented as a discount from that price. The price tag for this particular item should look something like this:

Price: \$20.00

5% Discount for cash payment @ \$19.00

5% Discount for Check Payment @ \$19.00

I firmly believe that the cost savings generated by credit card sales and the opportunities for increased sales far outweigh the pound of flesh extracted by the fees associated with credit card processing.

## **The Reality for Distributors Lies in Understanding the Cash to Cash Cycle and Real Costs**

The increasing costs associated with accepting credit cards are leading some distributors searching for ways to pass along at least a portion of processing expenses to their customers. Card originators such as VISA and MasterCard are becoming wary of this new trend which is especially prevalent on the retail side of internet sales and are enforcing strict regulations specifically designed to hinder any such efforts by merchants to impose surcharges on credit card purchases. The total credit card fees have been rising each year and last year amounted to \$48 billion in the United States according to the Merchants Payment Coalition, a small-business advocacy group formed to fight the fees. This is big business.

Credit card costs do seem high; however, we can not forget the real costs associated with doing business on credit the traditional way. Carrying costs include not only inventory but they include costs such as interest on capital employed, bad debt, processing costs for invoices, receivables management and the cost of processing payments by check.

### **Ask your self these questions:**

What does it cost to process a credit application?

What does it cost to process each invoice?

What does it cost to process each payment?

What does it cost to maintain an effective receivables management process?

What does it cost to borrow operating capital?

What is the length of your cash to cash cycle?

What does a one day reduction in this cycle amount to in cash availability?

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In layman's terms, cash flow is basically the cash received (coming into the business) over a specific time period less the cash going out of the business in the form of payments. You have a positive cash flow when the cash received exceeds the cash paid out: a simple concept. However, managing and controlling cash can become complex. If the cash being paid out exceeds the cash being received in the business you are in a negative cash flow position. This is critical because, if it persists, your costs go up, interest increases and your company may be unable to pay its bills and continue operating. It is possible to find yourself in this position even if your Profit and Loss (P & L) statement says you are profitable.

## Cash to Cash Cycle

This cycle is extremely important. This measure illustrates how quickly a company can convert its products into cash through sales. The shorter the cycle, the more working capital a business generates, and the less it has to borrow. The cash to cash cycle is a continuous measure that is defined by adding the number of days of inventory supply to the number of days of receivables outstanding and then subtracting the number of days of payables outstanding. The result is the number of days of working capital the company has tied up in managing the supply chain. Credit card payments are instant cash.

Accepting credit card payments compliments a cash flow culture within your organization. Ignorance of cash flow dynamics can be as deadly to your company as fraud, fire or the competition. If key managers really understand the concepts of cash flow and integrate that knowledge into their management style, then there is no circumstance or problem that can't be handled in a much more effective and efficient manner. More importantly, they will understand that the benefits of accepting credit card payment can far outweigh the costs associated with it.

<http://www.ceostrategist.com/resources-store/understanding-the-balance-sheet-and-profit-loss-statement.html>

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