Mini-Storage Messenger
www.ministoragemessenger.com
Your Online Resource for Self-Storage Information

February, 2006

CREDIT CARD FEES

Are You Paying **Too Much?**

By Erin Henley

As the American consumer increasingly turns to paying with plastic, self-storage operators are finding that they must accept credit cards to stay competitive. Yet, owners are faced with a myriad of fees, rates, and transaction types, all of which might leave them wondering if accepting plastic is really worth the hassle—and the costs.

Decoding credit card fees and finding the right system can seem overwhelming, but the increase in sales will make it worth the effort to do your homework.

Allowing customers to use credit or debit cards can increase your sales—by as much as 25 percent, according to Claudia Miller, president of C & A Solutions, a Round Rock, Texas-based firm that provides electronic and automated payment solutions for the storage industry. Indeed, nearly 500 million people had Visa cards in the third quarter of 2005, up nine percent from the year prior, according to the company's Web site.

Similarly, MasterCard's Web site reported 716.3 million cards issued in the first six months of 2005, up 12.1 percent from the first half of 2004. Moreover, according to MasterCard, the share of personal consumption expenditures made with cash fell nearly three percentage points from 1994 to 2003, while check usage declined almost 11 percentage points. Payment cards, meanwhile, advanced more than five percentage points over this period.

While consumers enjoy the convenience afforded by payment cards, they are usually unaware that we all pay for this convenience. Credit card companies and banks that issue credit cards charge fees for each transaction—fees that added up to a reported $25 billion last year. Fees are rising, according to Mary E. Schick, CFO of Phoenix, Ariz.-based MiniCo, Inc., because banks need to fund the popular rewards cards that give consumers airline miles, cash back bonuses, and the like.

Types Of Fees

Self-storage operators will encounter numerous fees when they accept plastic payments. "There are so many different types of fees," says Michael Usbelger, president of Wellington, Fla.-based Merchant Services Network, "because there are so many different entities that make the transaction happen." During a credit card transaction, the charge must go through the card associations (such as Visa and MasterCard), the cardholder's bank (the entity that actually issues the card), and the firm processing the transaction in order to move the funds from the customer's account to yours.

Most common is an interchange fee, which is collected from your account by your processor and paid to the cardholder's bank. Authorization, or capture fees are collected to pay for the authorization of the charge. Settlement, or batch fees are used to settle the funds into your account. Often, those three components are combined into one flat transaction fee. You might also pay your processor a monthly statement fee or other service fees.

While you will always pay fees no matter who your processor is, what can vary are the amounts that you pay. As Schick explains, you pay a percentage rate and a transaction fee. Transaction fees can be anywhere from five to 28 cents per transaction, and percentage rates can range anywhere from 1.7 percent to nearly four percent. Your costs can quickly add up, which is why it's important to understand what you're paying.

Rates vary by the level of risk associated with each transaction, with Visa and MasterCard defining the different levels of risk. First is a retail, or qualified rate, also called a swipe rate. With this transaction, the customer and card are physically present and you swipe the card on a reader. This type of transaction is perceived as being less open to fraud so carries the lowest risk.

A mid-qualified, non-swipe, or MOTO (Mail Order/Telephone Order) transaction is seen as a slightly higher risk because you manually key in the card number. Thus, Visa and MasterCard assess a higher fee. Next is the non-qualified transaction, which generally involves the use of a corporate card in which the person bearing the card is not the owner of the company in whose name the card was issued. For example, your facility might have a pharmaceutical rep paying with a corporate card, and this would be considered a non-qualified transaction. This doesn't mean that the transaction won't be approved; it's simply a way of differentiating from the other two levels of risk.

Don't be deceived by ads that promise low rates on swipe transactions. "In the storage industry," Miller states, "you can be deceived by falling into that trap because you end up doing more non-swipe transactions, such as for customers who want their cards automatically charged each month. You can get locked into a merchant account with a low swipe rate and get gouged on the non-swipe rate." One alternative is a system that allows for swipe and non-swipe transactions. You may pay a slightly higher swipe fee than, but you'll save money by paying lower fees on the non-swipe transactions that likely make up the majority of your charges.

Dwayne Thurnau, controller for Mesa, Ariz.-based Storage Solutions, advises owners to look for a three-tier plan instead of a flat rate. On a three-tier plan, the majority of your charges will fall into that mid-qualifying range.

Getting The Best Rates

One way for a self-storage store to get better rates is address verification. Miller notes, "If you do address verification, it helps get the lowest non-swipe fee because it tells MasterCard or Visa they've got the address for this person, so it's a lower-risk transaction." Miller sets up her merchant accounts to automatically default to perform address verification. Check with your vendor to see if your system can do the same.

Debit transactions will cost you less in fees. By offering the debit card option, your business may see substantial savings. However, buying a PIN pad will benefit you only if you have a lot of swipe transactions, since, for security reasons, you can't keep PIN information on file or take it over the phone.

Another way to cut costs is through the equipment you use to process your charges. "If you do not use a software processor," states Thurnau, "I recommend you purchase the credit card terminal versus leasing it. In many cases, you can find a good credit card machine on eBay® for half the price of what you would pay your processor to purchase a machine."

Software can automate the transaction process and reduce security risks. The system Miller's company provides takes the place of a credit card terminal. Within this system, you can create a database so the recurring monthly credit card transactions will process automatically. Thus, you won't have to manually key in all those numbers every month, nor will you have to worry about the security issues of keeping those numbers out of the wrong hands. Further-more, this system integrates with kiosk technology (OpenTech Alliance's INSOMNIAC system), and you can buy a mini card reader that will allow you to swipe a customer's card for payment when available.

Finding A Vendor

Once you're ready to begin accepting credit cards, you'll need to find a processor to handle your transactions. "Work with somebody in the storage industry," advises Miller. "Call your local self-storage association and obtain recommendations from them." You should also talk with fellow owners to find out if they can recommend reputable vendors.

Even if you've had a long-standing relationship with your credit card processor, you should periodically contact different vendors to see if you're getting the best rate plan possible. "Depending on what your volume is," states Schick, "you can shop around and get better rates, especially if you're willing to sign a multiple-year agreement." Get your last three months' statements and shop them to see whether or not you can get an improved rate.

Navigating through the world of credit card processing can seem daunting, but using the right processor and the right system can help you realize increased sales and profits.

Erin Henley is a freelance writer based in Gilbert, Arizona.