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INFO PAK

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MERCHANT PROCESSOR - MAKING THE RIGHT CHOICE

EXECUTIVE SUMMARY

Golf course owners and operators face many challenges with managing their operational expenses. These expenses can be broken down into two basic categories; fixed and variable. Many don't see accepting payments from their customers as a variable expense. Allowing customers to use their credit or debit cards to pay is an important service and is key to ensuring business success, but there is a cost that should be considered. This expense begins with the merchant processor you choose to manage your credit card transactions. Like all fixed and variable expenses, this expense element is controllable but requires your homework to ensure you negotiate the best contract with your next merchant processor. This white paper is provided to help owners and operators with this important task.

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1 INTRODUCTION

Today credit and debit card usage is at an all time high and this growth is expected to continue. The technology driving this increase has created both opportunity and risk for golf course operators.

According to a recent report by the Federal Reserve over 60% of the U.S. consumers are using cards over cash. A recent report by Intuit GoPayment Survey discovered that approximately 55% of U.S. small business still do not accept credit cards. For golf course operators acceptance of credit cards has become a business requirement. This service comes with a cost. According to the U.S. Small Business Administration credit card processing fees can be up to 5% on everything a golf course earns from its credit and debit card sales. These fees begin with the merchant processor selected to service their account.

Choosing a credit card payment processor is not a simple task. Just as with any major financial decision. It is important to carefully compare the pros and cons of each before signing a contract. This paper is provided to assist new and existing golf course operators with making this important decision. New operators must perform due diligence to ensure they contract with a proven payment processing provider. For existing operators the ever changing technologies and intense competition requires they periodically review their existing contract and consider other providers.

While some small operators still rely on stand alone credit card processing terminals, the industry by and large has moved to a point-of-sale (POS) system that integrates multiple business processes to include the processing of credit and debit card processing. Selection of a POS system is considered by many operators to be one of the most important business decision, requiring extensive research and comparing of capability, service, price and reputation. The POS provider generally has established business partnerships with various merchant processors. These providers may or may not provide an operator with the most competitive pricing strategy, and operators if one of

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these providers is selected, the golf course operator will still be required to sign a separate contract. Regardless of whose contract is being signed, knowing the key elements that will affect what you can expect to pay and what questions to ask are important items to add to your business toolbox.

2 WHO ARE THE PLAYERS?

Basically there are five main players when it comes to processing credit and debit card transactions. Obviously two main players are the business (merchant) and the customer. The invisible players are the various technology solutions that connect the two. Within the technology space you have the acquirer (merchant processor) and the payment card network (PCN). The fifth key player is the Issuer (financial institution that provides credit card to cardholder).

Here is how the players interact

A customer who wants to make purchase presents his card to the merchant. The merchant generates an authorization request with a dollar amount and card information. The request is routed along this path:
CUSTOMER ⇒ MERCHANT ⇒ ACQUIRER (Processor) ⇒ PCN ⇒ ISSUER

The issuer gets the request, checks its file of active card accounts, and sends an electronic message authorizing or declining the transaction:
ISSUER ⇒ PCN ⇒ ACQUIRER ⇒ MERCHANT ⇒ CUSTOMER

The issuer posts a charge for the transaction to the customer's account, and the acquirer posts a credit for the transaction, minus fees, to the merchant's account. Here you can see the only players responsible for paying for the transaction are the customer and merchant. However due to the transaction fees being paid by the merchant the final amount received for the transaction is less than if this was a cash transaction.

3 WHAT DRIVES THE COST?

Understanding the cost of a credit or debit card transaction is one of the most complex charges a golf course operator will encounter. The costs break down into basically five categories:

1 Setup fee for merchant accounts - These fees will range depending on your local bank or proposed merchant processor will charge for necessary equipment to support your required business functions (Proshop, F&B, Beverage Cart, etc). 2 Credit-card processing and transaction fees - These will typically fall between 2% and 5% per transaction. 3 Implementation cost from setting up equipment, such as the POS terminals. 4 Customer chargeback fees if the customer decides to dispute a credit-card transaction 5 Fraud Accountability - Some banks and credit-card issuers may hold the merchant liable if fraudsters charge and receive products and services using stolen customer data. NOTE: As of October 1, 2015, businesses that fail to migrate to EMV credit processing may be liable for fraudulent charges. EMV stands for "Europay, MasterCard, and Visa." EMV was created to make a standardized protocol for "integrated circuit" cards, otherwise known as "chip."

Some of these fees are negotiable while others are not. To effectively negotiate best pricing, understanding how these fees are derived is critical for the golf course operator. Operators must be able to define their operational requirements:

1 How many terminals are required in the proshop and the food and beverage areas? 2 Is internet available or will it need to be provided? 3 Do you want a mobile terminal on the beverage cart? 4 Do you require the beverage cart terminal to use WiFi or cellular service? 5 Do you intend to support mobile pay technology? 6 Is the system required to interface with primary system in

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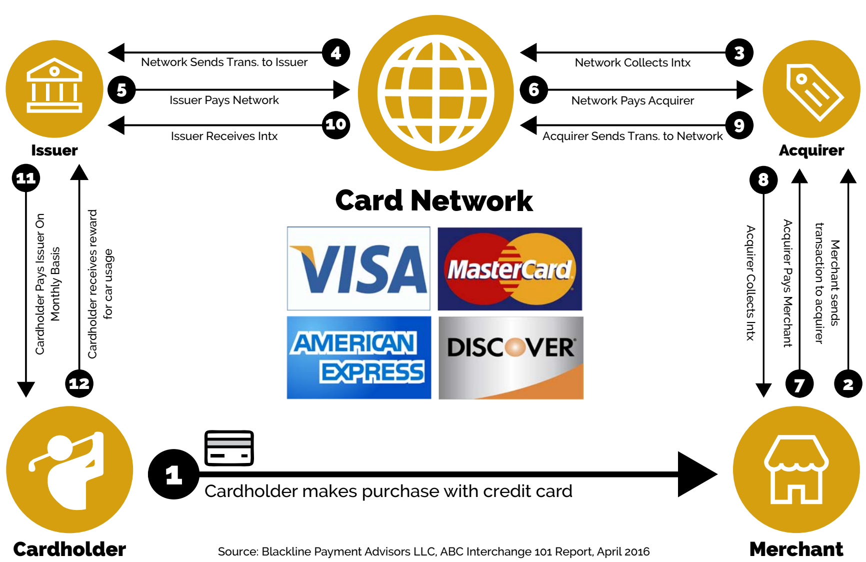
the clubhouse or will data be uploaded at end of shift? 7 Do you intend to offer online sales (merchandise and/or tee-times)?

The answer to these questions will drive the setup and implementation cost.

Transaction fees, also known as swipe fees, are the combination of processor fees and interchange fees. The following infographic reflects the flow of the credit card transaction. With each step in the process there is a fee assessed.

How do the Flows work?

CARD PAYMENT PROCESSING DEPOSIT AND INGERCHANGE FLOWS



Source: Blackline Payment Advisors LLC, ABC Interchange 101 Report, April 2016

As previously identified, the merchant is liable for all cost associated with this process.

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HOW ARE THE CREDIT CARD PROCESSING FEES DETERMINED?

There are basically five unique parties involved in determining the processing fees.

1 **Credit Card Association:** These are the companies that create the credit cards, like Visa, MasterCard, American Express, and Discover.

2 **Credit Card Issuing Banks:** These are the financial institution that issued the credit cards such as Chase, Citi, and Wells Fargo. Some card associations take on the role of a bank as well, developing and issuing their own cards, like American Express and Discover.

3 **Credit Card Processors:** Also known as Acquiring Banks (Acquirer), these institutions act as messengers between merchants and credit card associations. They pass batch information and authorization request along so the merchants can complete transactions.

4 **Merchant Account Providers:** These are companies that manage credit card processing, usually with the help of an acquirer. They can can also be the Acquirer (credit card processor).

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5 **Payment Gateways:** These are the special portals that route transactions to an acquirer.

Transaction Fees or swipe fees are assessed every time a credit card purchase is made. They represent the biggest cost of operating a merchant account. In addition to Transaction Fees merchants can expect to pay Flat Fees and Incidental Fees.

Transactional Fees

Interchange Reimbursement Fees[1] and Assessments: These are the fees the card-issuing banks and the credit card associations charge for each transaction, and they represent the largest expense merchants (should) pay per sale and per month. Interchange fees typically consist of a percentage of each transaction accompanied by a flat per transaction fee (2.10% + .10). Assessments are typically based on a percentage of the total transaction volume for the month. Each card association publishes their interchange and assessment fees online (e.g. Visa[8], MasterCard[9], Discover[6]). Now, let's say you're on an interchange-plus pricing structure. Your processor will quote you something like (.25% + .10). That is their markup, which is the amount that they will add to the wholesale rates. But, if you're on a tiered pricing plan, you'll get a quote with the Qualified, Mid-Qualified, and Non-Qualified rates. Those quotes have the margin embedded right into the quote, thus making it more difficult to tell what the processors margin is. A further description of the three main fee groups is provided below:

Flat Fees

1 **Terminal Fees:** These are charged to merchants who have physical stores, where they directly swipe a customer's card. If you run a business online, you will not have to worry about this. Most providers will provide the option to purchase or lease the terminals. You need to evaluate the best solution for you. Purchasing can save you money over time, however should the technology change requiring updating your equipment, you will be required to replace the old terminals. Leasing contracts while more expensive, can provide you with assurance your equipment will be upgraded should the industry move to new technology. This can save literally thousands of dollars in the long-run. For an example of this, check out TSYS[2]. 2 **Payment Gateway Fees:** These are similar to terminal fees, but they are applied to ecommerce businesses instead. Some processors have in-house payment gateways that are free-of-charge. 3 PCI Fees[10]**:** These are fees paid to the Payment Card Industry, either for noncompliance or compliance. In the case of noncompliance, you have to pay because your business is not upholding PCI standards, which could cost you even more money in the long run. In the case of compliance, you have to pay the merchant account provider to make sure you remain in line with the regulations at all times. Unfortunately, some providers charge for this service without actually providing it, so you need to make sure you are being careful for at all times. 4 **Annual Fees:** These are fees charged every year to cover the basic use of a provider's services. Most of the better merchant account providers will not charge it. 5 **Early Termination Fees:** This is pretty self-explanatory. It is a fee that is charged if you cancel your contract early. Another fee you definitely want to avoid. 6 **Monthly Fees:** These are fees that are charged each month, usually for the purpose of covering call center costs. Ironically, most of the phone calls that come in are the result of mistakes made by the merchant account providers, making them the cause of their own fees. 7 **Monthly Minimum Fees:** These are fees charged to merchants who do not reach a certain transaction total for the month or year. Some providers base their minimum on the number of transactions while other require minimum sales transactions. 8 **Statement Fees:** These are fees charged to cover printing and mailing costs for credit card statements. Some merchants bypass these costs by using electronic bill statements, but others pay as much as $15 a month for miscellaneous processing costs.

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9 IRS Report Fees[6]: These are fees that merchant account providers charge in exchange for reporting transaction information to the IRS (1099-K[6]). Most of these charges range from $2 to $5, depending on the provider. 10 **Online Reporting:** These are alternatives to statement fees, charged to merchants who choose to view their statements online. Most providers will not charge this kind of fee, and those that do often lump it together with others. 11 **Network Fees:** The card networks charge certain non-negotiable fees that are passed through to the merchant, such as the FANF[5].

Incidental Fees

1 **Address Verification Service (AVS):** If you have an e-commerce or telephone order business, beware of the AVS fee. It will be charged on every single transaction. For retail businesses that occasionally key-in card information, you don't need to worry about it as much. 2 **Voice Authorization Fee (VAF):** Rarely you may be required to call a toll-free number in order to verify certain information before a transaction is authorized. This doesn't occur often, so don't worry about it too much. 3 **Retrieval Request Fee:** Every time a customer initiates a dispute on a charge from your business, it sets into motion the chargeback protocol. This retrieval request is the first step. The fee covers any expense related to the retrieval request. 4 **Chargeback Fee:** After the retrieval request, the actual chargeback may occur depending on the circumstances. If it does, expect another fee on top of losing the money from the sale. 5 **Batch Fee:** Every time you submit a batch of transactions, a batch fee (or batch header) is charged. These happen automatically at a set time every day, so don't worry too much about an extra dime or two. 6 **NSF Fee:** If you don't have enough funds in your bank account to cover your merchant account expenses, you will be assessed a NSF (non-sufficient funds) fee.

American Express sets their rate solely on the merchant's industry, thus their rates, while higher are fixed, and not dependent on the type of card being swiped. American Express is the most expensive for businesses. Amex typically charges 0.77% more than Visa or Mastercard, so the merchant's will pay about 3.5%. Amex also negotiates rates on a business-by-business basis.

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MOBILE PAYMENTS... LATEST TREND FOR CREDIT CARD TRANSACTIONS

Today consumers can simply swipe or scan their smartphones at the checkout to pay. A huge array of mobile payment services like Apple Pay, Google Wallet, Android Pay, etc have sprung up in recent years, urging customers to abandon their plastic credit cards for the "mobile wallet" revolution, but so far, adoption of mobile payment technology has been limited.

Supporting this technology requires that your equipment support near-field communications (NFC). Some merchants processors may charge additional fees to provide this technology. For most banks and merchant processors, these transactions will be treated as "card not present" transactions, thus you can expect to pay additional fees to accept.

6
WHAT IS THE ROLE OF MY POINT-OF-SALE PROVIDER?

As previously identified, merchants will sign a separate contract with the merchant processor. The exception will be when the POS provider is their own merchant processor. With the exception of those who provide their own processing services, POS providers will generally offer multiple merchant processors. Unfortunately the industry currently does not have a standard API (Application Programming Interface). With thousands of gateways in

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the market it would be challenging for a single software vendor to interface with all of them. Check with your POS provider to find out what APIs they support. There are a growing number of POS providers who allow merchants to bring their own processor as long as their interface can be supported.

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KEYS TO CONTRACTING FOR MERCHANT PROCESSOR SERVICES

Applying for a merchant services contract is similar to applying for a loan. The bank that stands behind the processor will demand a great deal of information in order to make their underwriting decision. Fraud is the key issue, and one way that banks protect themselves is by requiring a reserve account, basically a deposit of your money to cover the risk is chargebacks or fraud on your merchant account. Terms are always negotiable. The merchant processor will have many questions to ensure your business requirements are incorporated in their proposal. This is also the time for operators to ask some important questions to the proposed merchant processor.

Here are some questions you should ensure are reflected in your final agreement:

- **What is the discount fees? How often can it change?**
- **Are there any other monthly or recurring charges?**
- **What kind of equipment will suit my needs? What are the installation and operating costs per month?**
- **Are funds deposited in my bank account daily?**
- **Are there any special one-time-only set-up fees?**
- **Is there a cancellation fee? If so how much?**
- **Will there be daily or monthly transaction volume limits?**
- **How is PCI Compliance handled?**
- **Is there a minimum period before termination charges apply if I decide to switch? Can you terminate any account at will or is there a notification period?**
- **Who is responsible for fraudulent transactions? Can I buy protection?**
- **What are chargebacks? Who pays and what fees apply?**
- **Will a reserve account be required? How much and how will it be collected?**
- **Besides Visa and MasterCard, what other payment types do you support? What will these cost?**
- **What will happen when something goes wrong? Do you have a 24-hour customer service hotline that I can call for immediate service?**
- **Provide a list of references**

Finally and most importantly is to thoroughly review the final contract proposal to not only ensure your operational requirements are met, but also that the fees and services are clearly reflected.

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WHAT CAN I DO TO ENHANCE MY CREDIT CARD SERVICES AND LOWER COST?

The following key processes within the credit card transaction and clearing process impacts the cost you will incur. By understanding their application and role in determining what you will be charged is critical to controlling your transaction cost.

1 **Acceptance:** For maximum sales, accept as many kinds of cards and payment types (credit, debit, prepaid, etc.) as possible. Never complete a sale without receiving a valid authorization because without one, it's impossible to get paid. Be sure to factor the cost of card acceptance into your pricing. 2 **Acceptance Signage:** Let customers know you accept card payments to boost revenue and sell impulse items. Have signs prominently placed at the entrance to your business, on your business website and at check-out. Signage is available from your payment processor. 3 **Chargebacks:** Cardholders may dispute a transaction up to 120 days after making a purchase. This is called a chargeback. Be sure to print your company name and phone number prominently on purchase receipts so they match what customers will see on their monthly statements. This

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helps cardholders remember their purchase and gives them the ability to contact you if they have any questions. Keep signed receipts and invoices for 12 months to be able to fulfill chargeback copy requests. When you have detailed documentation, you have a better chance of refuting a cardholder's chargeback request. While the equipment cost are higher, having EMV and Signature Capture terminals allow merchants to get aways from storing signed receipts. 4 **Declines:** If a transaction is declined, it is likely that the purchase amount exceeds the credit limit available (credit cards) or the account balance (debit and prepaid cards). Tell the cardholder that their transaction has been declined and ask for another payment method. Advise them to call the 800 number on the back of their card for details. 5 **Discounts and Incentives:** You may offer a discount or in-kind incentive for payment by using cash, check, debit card or credit card transactions. The discount or incentive must be universal and cannot be based on issuer or payment card network. 6 **Laundering or Factoring:** You must process and deposit transactions for your business only. Doing so for another business that does not have a valid processing agreement is not allowed. These transactions usually go hand-in-hand with fraud and are typically associated with high chargeback rates. Participating in laundering or factoring creates great potential for your business to be involved in illegal activity. 7 **Receipts:** Do not print the full cardholder account number and expiration date on paper sales receipts to help eliminate fraud. Mask all cardholder account number digits with an "X" except for the last four and eliminate the expiration date entirely. 8 **Refunds and Adjustments:** Make sure your refund and adjustment policy is clearly stated and displayed at checkout and / or on purchase receipts. For returned merchandise originally purchased with a payment card, it's best practice to issue a refund only to the card that was used or in-store credit. Never permit a "blind" credit where a refund is put on a card that is not the card used for the original purchase. This protects your customers from individuals who fraudulently make purchases on their payment card or attempt to return stolen goods for cash. 9 **Review Monthly Statement Timely:** Reviewing statements can be time consuming. Familiarizing yourself with cash flow, charges and rate changes gives you a snapshot of your financial health. It also can uncover hidden cost - like batches that are not transmitting within the time constraints. Compare processor fees against contracted agreement. 10 **Securing Cardholder Information:** Your business must adhere to the Payment Card Industry Data Security Standard (PCI DSS). The Standard is meant to keep your customers' data safe and provides guidelines about how to secure cardholder information. Consider your payment processor a partner in PCI DSS compliance. They can help you validate that the payment equipment and software applications you use are compliant, and can provide education about PCI DSS requirements as well as assistance in completing the self-assessment questionnaire, regular scanning and ongoing audits.
In general, PCI DSS and the card brands do not permit storage of full magnetic-stripe, PIN or card-validation code information under any circumstances. Store only customer account information that is essential to your business security (e.g. name and expiration date), and limit access to authorized personnel only. Contact your payment processor immediately in the event that transaction data is accessed by an unauthorized party. 11 **Settlement:** The sooner you settle transactions with your payment processor, the sooner you get paid. Deposit transaction receipts the same day to avoid higher processing fees and fines. Transactions submitted more than 30 days after the original sale date may result in chargebacks. Most of systems are host-based so settlement should occur automatically on a daily basis with deposits made daily to merchant's bank account. 12 **Tips:** If your business accepts tips, only authorize

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the known amount, not the transaction amount with an estimated tip. Once the cardholder specifies a tip amount, enter it using the tip adjustment feature of your payment application. Authorizations that include an estimated tip can reduce a cardholder's available funds or credit line by an unfamiliar or unexpected amount. 13 **When a Payment Card Won't Swipe:** When a payment card won't swipe properly, it's usually because it's been demagnetized or your payment equipment reader may be dirty or scratched. However, in some cases, the card presented for payment can be counterfeit.

When cards won't swipe, your business should take the following precautions:

- **Clean and check your payment equipment.**
- **If working properly except for the swiping process, key-enter the transaction using the Address Verification Service (AVS) while checking the security features (embossing, signature panel background, hologram, etc.) to determine they haven't been altered.**
- **Check the "good thru" or "valid thru" date to make sure the card is not expired.**
- **Have the cardholder sign the merchant copy of the receipt and compare their signature to the one on the card to make sure they match.**
- **Do not accept an unsigned card. If a card is presented unsigned, ask the cardholder to sign it immediately and then compare the signature to one on another form of identification like a driver's license or passport.**
- **If your payment equipment isn't working properly, prepare a manual imprint sales draft using a multi-part sales draft form and make sure to obtain the cardholder's signature.**

9

NEGOTIATING FOR LOWER CREDIT CARD PROCESSING FEES

It is important to know that account setup fees, ongoing maintenance fees, and card processing fees with the exception of interchange fees which are set by the card networks, are negotiable. To get the best rates and avoid additional costs, negotiation skills are a must when dealing with vendors. Confidence is the key to a successful negotiation. If you can't confidently say that a deal sounds good or bad, all is lost. Here is a short guide[12] to aide you with effectively evaluating your merchant processing proposals to help give you the confidence to negotiate a contract that best suits your business needs while, saving you money.

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CONCLUSION

Selecting the right merchant processing partner is a critical part of managing operational cost. By owners and operators understanding the keys to negotiating the best contract, they can be ensured that when their monthly statement is received the data will be clear, easy to understand and allow for improved business decisions.

Golf course owners and operators are encouraged to treat the selection of their next merchant processor as seriously as they do selecting their POS provider. Both will greatly impact your bottom line.

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