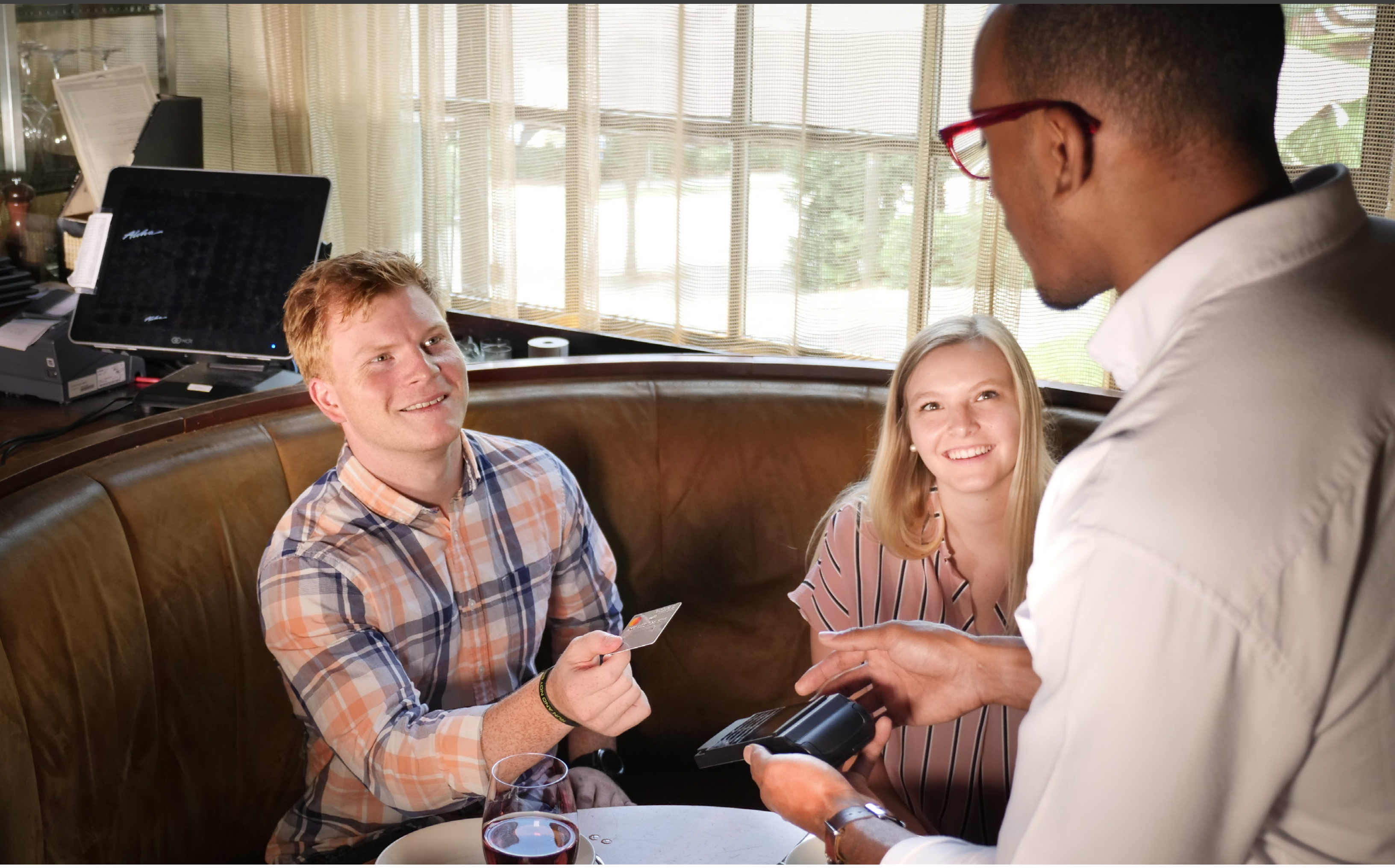
WHITE PAPER



4 Considerations for Choosing a Payment Processor

Cash used to be king. Nowadays, plastic – namely credit and debit cards – is essential to a restaurant's transactional platform.

By **Steve Arel** | Contributing writer, FastCasual

SPONSORED BY:

4 CONSIDERATIONS FOR CHOOSING A PAYMENTS PROCESSOR

"While processing companies generally provide a straightforward business solution ... choosing one to provide the service isn't so simple."

Cash used to be king. Nowadays, plastic – namely credit and debit cards – is essential to a restaurant's transactional platform.

That means the restaurant's use of a payment processor is a necessity unless the only payments it takes are cash and checks.

While processing companies generally provide a straightforward business solution – accept merchant credit cards and process and transfer money from one bank to another – choosing one to provide the service isn't so simple. The industry is increasingly complex and filled with numerous firms vying for a slice of the lucrative financial pie.

"Add to that that much about the processing operation isn't clear-cut or transparent when it comes to fees and other charges," said Murray Bartholome, director of payments for NCR. "This leads to merchant statements that can be are very confusing and difficult to read. It's a competitive industry without a lot of value added for merchants. At end of the day, all processors perform similar tasks. Customers don't necessarily know these things."

The following are four considerations for choosing a payment processor.

Rates

Most merchants have been trained to buy processing based on rates and with the expectation that they'll save money compared to what they're paying at the time. That's led processors to get creative in how they access fees and interchange rates.

It's imperative for merchants to understand rates. A low rate doesn't always mean low overall cost.

Processors can have high processing fees and even variable rates that can make it hard to tell what really is being paid.

"Experts suggest looking for a payment processor with transparent rates and not failing to read the fine print within an agreement."

Experts suggest looking for a payment processor with transparent rates and not failing to read the fine print within an agreement. Some less-reputable merchant account providers count on business owners not knowing which fees are justified.

Most pricing structures generally fall into one of three categories:

- Flat-rate pricing, where a merchant pays a fixed percent for all transaction volume, no matter the actual costs.
- Interchange plus pricing, where the processor charges a fixed fee on top of the interchange.
- Tiered pricing, where the processor takes the roughly 300 different interchange rates and puts them into three tiers: qualified, mid-qualified and nonqualified. While tiers are simpler to understand, the processor defines the tiers and can make it expensive.

"When processors sell to a customer, they usually have to show that they'll save money," Bartholome said. "Once that customer has been convinced they'll save money, it's difficult for the merchant to understand if they're actually saving money. If they are, they may not be doing so for a long time. Most processors don't say they'll lock in fees for the length of a contract."

Types of plans

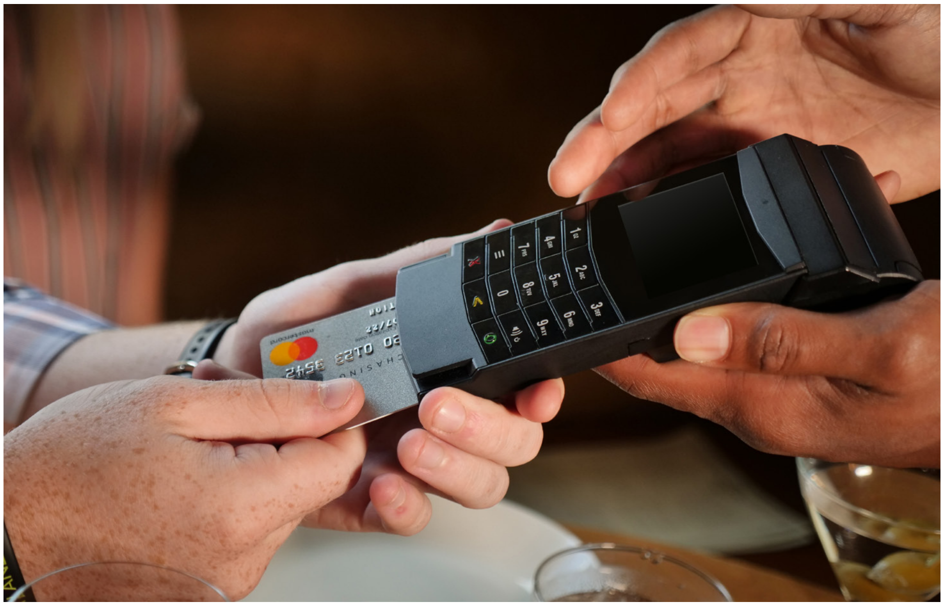
Another cost to consider is the price of equipment. Businesses wanting to process credit card payments in-person need at least one credit card reader. Some providers offer their credit card readers for free, while others charge based on a reader's capabilities.

> "Some providers offer their credit card readers for free, while others charge based on a reader's capabilities."

What does a processor offer? Is this a bundled provider that seamlessly combines robust restaurant point-of-sale functionality with secure payment processing capabilities to provide an end-to-end solution from a single provider?

Some providers offer additional services. Among them:

- Monitoring of POS hardware and configuring email alerts on devices and software
- Remotely managing PINs and encryption keys, as well as providing updates to payment types or payment flows without touching the PIN pad device from an internet-enabled device
- Configuring alerts about the health of the payment platform
- Providing secure payment plug-ins for website integration
- Implementing all current forms of EMV and future changes



Fees

Fees associated with credit card processing can be especially convoluted. Aside from transaction fees, other processing fees to watch for include compliance fees, interchange fees, statement fees, cancellation fees and gateway access fees.

"Merchants also should be aware of other fees that can be triggered by certain events, such as volume caps, sales quotas or other limitations."

Essentially, every business involved in a credit card transaction angles for a cut. A sale initiates an interchange fee from the bank that issued the card, typically amounting to a percent of the sale plus a fixed transaction fee. Then there's an assessment fee charged by associations; Mastercard, Visa, AMEX, Discover such as credit cards. And there's a markup fee that's a percentage coming from those organizations moving the transaction along, including the merchant's bank, gateway and payment processor.

Merchants also should be aware of other fees that can be triggered by certain events, such as volume caps, sales quotas or other limitations.

Contracts

Unfortunately, contacts are not always mutually beneficial to both sides, even though that might be the appearance from the outset. Over time, market conditions change, business activity changes or the return on investment doesn't hit the restaurant's intended target.

"While that may be easier said than done, merchants should know going in what fees and penalties are assessed should cancellation be necessary."

That can leave a merchant desiring to re-evaluate or negotiate with another provider. But if a merchant has no way out of a bad arrangement, a contract can pinch a restaurant both financially and operationally.

Experts suggest avoiding a contract that is difficult to get out of. While that may be easier said than done, merchants should know going in what fees and penalties are assessed should cancellation be necessary.

Before agreeing to a contract, merchants should also know:

- The contract's length and whether a multi-year agreement is required. Tucked away could be information on contracts and terms, which may restrict or lock in a long-term deal.
- Requirements for early termination fees. To that point, know what other charges may apply.

As part of their agreements, a number of processors package point-of-sale systems with their offerings. Bringing a POS system online can be an expensive and trying process. Merchants will want to know if the POS system can be used with other processors should they decide to switch.

Must the merchant return the POS and payment processing equipment, or can the restaurant buy or lease the terminals instead? Otherwise, finding another POS provider can pose a separate challenge.

“There can be are inherent problems going with one processor that also provides the POS,” Bartholome said. “But if the company doesn’t have egregious termination fees and is transparent, an advantage is increased security because the transaction never leaves that company – they handle all processing from start to finish.”

“Another thing it does is provide simplicity. Instead of working with three vendors as a merchant to make sure the processing ecosphere works, you only have to work with one.”

ABOUT THE SPONSOR:

NCR works with more than 100,000 restaurants to make simple possible and reduce the complexities of running a restaurant from end-to-end. From the front of house to the back and everything in between, NCR helps brands embrace digital transformation, drive on- and off-premise revenue, optimize their technology and exceed guest expectations.