

Accepting Credit, Debit Cards Can Pay Off For Hoof-Care Providers

But be sure you understand the process, requirements and fees before you get started

By Esco Buff, CF, Ph.D.

Electronic money transactions are growing and will continue to grow. Today, it is almost a necessity for any business to accept credit cards. Fewer people carry cash and checks seem to be gradually becoming obsolete.

Credit and debit cards have become the most common forms of payment. About 80% of all retail customers pay with credit and or debit cards. The majority of businesses worldwide (59%) now accept these cards because this option allows them to help more customers and improve cash flow.

Accepting debit and credit cards can be extremely advantageous for any business — including a hoof-care one. Some

farriers hesitate to set up an account for accepting debit and credit cards because of cost factors. But the loss of sales and profits from not accepting these forms of payment may actually be far more costly.

People also tend to spend more money when paying with a credit card than when paying by cash or check. By accepting credit card payments, your increased revenue will compensate for more than the costs of accepting the payments.

Potential Benefits

Accepting credit and debit cards will:

- ➔ Boost sales and improve customer satisfaction by allowing them to choose their preferred form of payment.
- ➔ Increase your average sale because the customer doesn't need to have the cash on them.



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➔ Protect you from potential losses caused by bad checks.

➔ Allow you to accept payments from virtually anyone, anywhere.

But too many businesses jump into accepting credit and debit cards without really understanding the process. To accept credit and debit cards, you need to set up a merchant account with a credit and debit processing company. Basically this is a credit-check process that determines if the credit and debit card processing company will allow you to accept credit and debit cards.

How The Process Works

After acceptance, you are referred to as a merchant. As a merchant, processing a credit or debit card generally follows this process.

More On PCI DSS

The Payment Card Industry Data Security Standard (PCI DSS) is a set of requirements designed to ensure that all businesses that process, store or transmit credit card information maintain a secure environment. And that includes farriers and other hoof-care professionals who accept credit and debit cards for payments.

Credit card issuers have suffered huge losses from credit card fraud and now take new steps to prevent as much of that as possible. These steps include coordinating with merchants to establish and enforce new credit card number protection strategies, better encryption of card numbers during transmissions and with storage of customer credit card data.

Every bank and processing company will pass on the cost of these new standards to merchants. To become and remain compliant with PCI DSS, you will have to

complete an online Self-Assessment Questionnaire (SAQ). The questionnaire will tell security departments how you process credit cards and from your answers you will receive instructions regarding any further security steps you need to take.

There is a logo you can display on your website to let customers know you are compliant, which will enhance customer confidence in your business. If you are not being asked to become PCI DSS-compliant by your credit card processor, be concerned. Merchants are liable for up to \$500,000 in fines for breaches that occur.

Complying with PCI DSS is a necessary part of doing business and also represents a service to your clients. For more on PCI DSS, visit the PCI Security Council website at www.pcisecuritystandards.org or www.pci.complianceguide.org.

- ➔ The bill is finalized. You transmit the credit or debit card data either by telephone, online or wirelessly.
- ➔ The credit or debit card information goes to a payment-processing gateway, which connects with your credit or debit card processing company for authorization. (More on this later.)
- ➔ The payment processor passes the sale information on to the bank that issued the card, which checks to see that the card is valid and if the amount requested is available on the account.
- ➔ The issuing bank sends an approval number or a decline message back to the processor. All this is usually done in 3 to 15 seconds.
- ➔ You, the merchant, settle the sale, which means you finalize the process by sending it back to your processing company, either then or later in the day.
- ➔ Sale proceeds are then electronically

transferred from the card-issuing bank and are deposited into your checking account. It typically takes 2 business days for the funds to reach your checking account.

Key Questions To Ask

As simple as this process seems, you need to be aware of several costs along

the way. Knowing how these costs are determined will help you decide what processing company to choose. When shopping for a credit and debit card processing company, be sure to ask the following questions:

What is the contract term? Some processing companies have no-contract offers, while others stipulate monthly



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What is the monthly minimum?

Some companies charge no minimum fee. But others will stipulate a minimum amount you need to process to avoid an additional fee. You will be charged this monthly minimum even when you don't process any debit or credit card sales.

The typical monthly minimum is in the \$15 to \$30 range. You are charged this fee only if the sum of all the discount fees you paid for a month do not reach your minimum. Be aware that you may not reach that minimum until more of your clients are informed you are accepting credit and debit cards.

What are the monthly fees? Is there an annual fee? What is the cancellation fee? Make sure you know all the fees you'll be paying. Most contract-free companies do not have a cancellation fee, but be sure to ask. You do not want to get penalized if you decide to switch processing companies.

Can you keep your current bank accounts? Most processing companies do not care if you use your own bank, however, some may require you to open a bank account through their banking system. Personally, I would stay away from processing companies with this kind of requirement.

What is the settlement time frame? In other words, how soon do funds get

deposited into your account? Two business days is standard, although some companies take a little longer.

What is the batch fee? This is a fee for closing out your transactions at the end of the day and transmitting them to your processing company. Typical batch fees run from 15 to 30 cents.

What is the transaction fee? This is a fixed charge for each transaction processed through your credit card processing company. Typical fees run 20 to 30 cents.

Does the processing company own its processing gateway? Payment gateways are a type of processing software that is hosted by a third party on a server outside your business. Your shopping cart, terminal, software or other payment processing method communicates with the payment gateway online, and the gateway manages the actual transactions.

Credit and debit processing companies that own their own processing gateway generally do not charge a separate fee. The gateway fee is incorporated in the monthly service fee. Companies that do not own their own gateway will charge a monthly or per-use fee.

What types of processing methods do they offer? This will depend on your choice of processing credit and debit cards. Will you telephone in your sales? Do you prefer to process online either at time of sale or later on during the day? (Be aware that you can lose sales from declined credit cards processed later in the day than at time of sale.)

Do you prefer to process wirelessly via wireless terminals or through an app on your Smart phone? Wireless terminals and mobile telephone apps deliver a rapid checkout process, with verified transactions received in 2 to 3 seconds. Wireless processing is an affordable solution for farriers. Processing a credit card with the customer present involves less risk and processing costs will be lower.

What types of equipment do they offer? Do they offer wireless equipment if that's what you're interested in?

I would stay away from renting equipment. Most credit card terminal leases involve a 48-month term at a cost of at least \$20 a month. That totals \$960 in payments! If you buy this same terminal for \$160 and charge it to a credit card, you could more than pay it off



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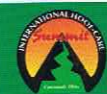
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in 9 months, at the same \$20 monthly payment. Some companies claim tax advantages to leasing. This isn't true. Lease payments are deductible, but any business purchase is deductible. Would you rather deduct an expense or have the cash in your pocket? These leasing contracts are also binding, regardless of the circumstances. You can't terminate the lease before the term ends.

If you decide to end the contract, you still have to return the leased equipment. (Say so long to your \$960!) And leasing has others strings attached, including equipment insurance fees.

What is the credit card company fee? When a customer uses a credit or debit card to make a purchase, there is a related processing fee known as an interchange fee. This fee is determined by the nature of your business and the processing procedures you follow (online, telephone or wirelessly). Credit card companies like Visa and MasterCard determine these rates by assessing the level of risk and expenses associated with

funding and processing a transaction. The interchange fee for a face-to-face transaction is generally less than mail-order transactions, because you can compare signatures and swipe the card.

Twice a year, credit card companies examine industry changes and implement changes they feel are necessary. Rewards, international and government credit cards have higher percentage fees. The fee could be around 2.28% for a regular credit card, 4.07% for a rewards credit card and 4.27% for an international or government credit card.

What is the AVS fee? AVS or address verification service checks that the customer's stated billing address matches the address provided to his credit card company. This is an added security system. Typical AVS fees are around 5 cents.

What are the PCI DSS fees? If you accept credit cards, you will be charged a new annual fee to pay for the cost of keeping your business compliant with the latest required credit card security regulations. PCI stands for Payment

Card Industry and DSS for Data Security Standard. This is intended to improve security of transactions as well as safeguard the personal data of cardholders. The annual compliance fee is not that much and is a small price to pay as a cost of doing business. (See "More On PCI DSS" on Page 36.)

The fees can seem overwhelming at first. I have been accepting credit cards for nearly 12 years and it has been a major boost to my farrier business. My monthly fees average about \$12 and my annual PCI costs \$58. Obviously, credit card companies keep their 2.28% to 4.27% of each sale. I incorporate the fees into my prices. I suggest you do the same. It makes sense for a sound hoof-care business. 

If you have a topic you'd like addressed in this column, mail it to American Farriers Journal Managing Editor Pat Tearney, P.O. Box 624, Brookfield, WI 53008-0624 or email it to ptearney@lesspub.com.



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