



Interchange Optimization Guide

An industry-first guide that teaches how you, as the merchant, can manipulate the base-cost interchange rates to lower your overall processing fees!

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Interchange, by simple definition, is the base-cost percentage rate and transaction fee charged by VISA/MasterCard to process a credit or debit card transaction. **Interchange Optimization** is the practice of good processing habits so that you qualify for the lowest-cost interchange rate in every transaction you process. Many merchants are unaware that some of their small daily practices can have a *huge* impact on their overall processing fees. In this guide, we will teach you everything you need to know about manipulating the interchange categories to work in your favor every day of the week, so you can hit your overall processing fees in the gut and keep as much profit as possible from your transactions.

Interchange was established by the card brands (VISA/MC) to cover the cost and risk associated with processing card payments (i.e. chargebacks, fraud, etc.) We're sure you've seen plenty of examples on your merchant statement; some of the most common interchange rates listed below:

VISA CPS Retail/Card-Present @ 1.51% + \$0.10

VISA CPS Rewards 1 @ 1.65% + \$0.10

MC Merit I @ 1.89% + \$0.10

There are close to *one thousand* different interchange categories (rates), and there are several different factors that influence a transaction to fall into a certain category. Some of these factors are out of a merchant's control, such as: the type of card you accept, the industry your business is in, and even the brand of the card. *However*, there are certain transaction factors that you as a merchant **can** control. We've created a list of tips, recommendations, and examples on good processing habits that will optimize the lowest-cost interchange categories, keeping your base cost and overall processing fees as low as possible! As always, if you have any questions after reviewing this guide, feel free to give us a call or shoot us an email and we will be happy to go over it with you.

The Factors That You Can Control



1. **Card Acceptance** – First things first: All card-present transactions should be swiped. A swiped, card-present transaction is the lowest interchange category you can qualify for. Key-entering a payment (as opposed to swiping) will downgrade the transaction and result in a higher-cost interchange rate. VISA/MasterCard have established higher-cost interchange rates for key-entering transactions due to a greater risk involved (i.e. greater probability of fraud).

Example A: John swiped a credit card transaction in his retail store. This allowed him to receive the low-cost interchange category of 1.51% + \$0.10.

Example B: John's terminal was not working, so he was forced to manually key-enter a credit card transaction in his retail store. This downgraded the transaction, and he received the interchange category with a higher cost of 1.80% + \$0.10.

Bottom line: Swipe as much as you can before resorting to key-entering the transaction.



If you must key-enter your transactions for whatever reason...

2. **Complete all POS prompts** – When you key-enter a transaction, your POS system will (or should) generate prompts to follow in order to verify the card information. One of these prompts is AVS (Address Verification Service). To qualify for the lowest-cost interchange category for a card-not-present transaction, you must verify the billing address of the cardholder. This helps to ensure that the card actually belongs to the person using it. If you skip any of the POS prompts, it will downgrade the transaction and result in a higher-cost interchange rate.

Example A: Jane manually key-entered a transaction on her POS system. She followed the Address Verification Service prompt and verified her customer's billing address. This allowed her to receive the low-cost interchange category of 1.80% + \$0.10.

Example B: Jane manually key-entered a transaction on her POS system, but was in a hurry to complete the transaction, so she skipped the Address Verification Service prompt. This downgraded the transaction, and she received the interchange category with a higher cost of 2.30% + \$0.10.

Bottom line: Always follow the POS prompts. (If your business primarily accepts corporate, business, or government cards, the transaction will require Level II and Level III data. Contact our Customer Service department for the exact requirements in these situations to ensure you are collecting the correct information and keeping your processing fees as low as possible).



All in all, no matter how you enter transactions, always be aware of the...

3. **Settlement Timeframe** – To obtain the lowest-cost interchange rate in any situation, all merchants should settle their batch within 24 hours (close of business day is easiest). Settling your batch after 24 hours will downgrade every transaction and result in a higher-cost interchange rate, and settling after *48 hours* will downgrade every transaction *again* and result in the highest-cost interchange category for your entire batch.

Example A: Josh manually settles his batch at the close of every business day. Every day that he remembers to do this, it allows him to receive the low-cost interchange category
–if swiped, consumer credit card, his interchange cost is 1.51% + \$0.10
–if key-entered, consumer credit card, his interchange cost is 1.80% + \$0.10

Example B: Josh manually settles his batch at the close of every business day. *However*, on Friday, he was excited to head home, so he forgot to settle his batch. After 24 hours, this downgraded every transaction in his batch, and he received the interchange category with a higher cost of 2.30% + \$0.10. If he waits until Monday, that would be settling after *48 hours*, downgrading every transaction even further, to the interchange category with the highest cost of 2.70% + \$0.10.

Bottom line: Settle your batch at the end of each business day. If your business allows, you can also set up auto-settlement at a specified time of day so that you never forget to settle your batch.

To conclude, you now know the three main factors that you, as the merchant, can control to optimize the interchange categories and lower your base processing fees: **Card Acceptance, Completing POS Prompts, and Settlement Timeframe**. To sum up the bottom line recommendations for each variable affecting a transaction, here's what you should do to ensure you are receiving the lowest-cost interchange rate for every transaction:

Always swipe transactions. If you can't swipe and you must manually key-enter transactions, always complete all of the POS prompts verifying the card belongs to the person using it. Finally, no matter how you enter the transactions, always settle your batch within 24 hours.



How Will Interchange Optimization Benefit My Company?

Following the above recommendations and changing small, day-to-day habits can have an extremely positive effect on your processing fees...and your wallet, for that matter. These tips will allow you to manipulate the base-cost interchange categories so that you qualify for the lowest-cost interchange rate in every transaction, reducing your overall processing fees significantly. As your Merchant Service Provider, we've done all that we can to save you money on our end – demonstrated by our Membership Program's unique features, including no MSP percentage markup, no MSP transaction fee, no surcharges, and many more. As an industry-first, our Membership Program has significantly reduced processing fees on our side of the processing relationship. Now it's your turn.

How Much Savings Can We Expect?

How much you could save depends entirely on your current processing habits, as well as your total monthly credit card volume. We've personally seen merchants save *hundreds* of dollars per month on processing fees just by adopting the **Interchange Optimization** good processing habits. There are also cases where merchants have been able to cut their effective processing rate by *one full percent* (1%), merely by following these small daily recommendations! The impact on your overall processing fees can be monumental if you were previously unaware of all of the factors that you have power over.



We hope this helps to shed some light on how you can control some of the variables that affect the processing cost of your transactions. If you are one of the many merchants who has benefited from this guide, we ask that you pass this **Interchange Optimization Guide™** to any fellow business owners who could also benefit from reading. We want to get the word out about lowering processing fees!

As always, if you have *any* questions or concerns, please don't hesitate to call or write to us. We are always happy to lend a helping hand with the comprehension and optimization of interchange.