


Credit Card Cache

By Lisa Starr

A close-up photograph of a person's hand holding a gold AT&T Universal credit card. The hand has manicured nails with a white and pink design. The card is held horizontally, showing the AT&T logo, the word 'Universal', and a portion of the card number. The background is a soft, light-colored gradient with a decorative dotted line.

Remember those old machines we referred to as knuckle-busters? You put in the credit card and the little processing slips with their carbons, and then you raked the arm across the card to imprint the card onto the slip. Periodically, you mailed in your slips and then waited several weeks for your check. Well, things have changed. Today, all credit card processing is electronic, and the money is in your account between 24 and 48 hours after you process the card. The service is both easier and more secure for businesses. Indeed, taking credit cards is now less risky than taking checks—no need to track down customers whose checks bounce. Cardline, an industry watchdog

organization, reports that check payments fell from 85% of all money transactions in 1979 to about 60% today, while the portion of transactions generated by electronic payments rose from 5% to 30%.



Manual imprinting machines like the one above have been replaced by easy-to-use electronic methods.

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Many credit cards now carry incentives for consumers, prompting them to use their cards for everything from grocery shopping to gas. Consumers are less and less likely to carry cash with them, much less a checkbook. They want to use their cards as often as possible, and you want to make it easy for them to do business with you.

Kenny Zahn of Lush Beauty & Wellness in Ramsey, New Jersey, operated a small hair salon where credit cards weren't accepted, but when he recently opened a full-service spa, he felt it was necessary to offer the credit card payment option. "Given that adding spa services will raise the price of my average ticket and that I want to provide convenience for my customers, I felt it was an important move," Zahn said. Zahn didn't raise his prices to cover the added expense, predicting he will more than make up the difference with higher sales.

If you're not accepting credit cards,

you probably have a lot of clients asking you when you will start—or looking for another salon that does offer this convenience. While it's certainly time to consider this option, you'll want to investigate carefully to make sure that you get the best deal for your business. If you're already offering this service and wondering if you're paying more than you should be, this assessment may help you streamline your operation.

Basics

Let's start with the two most popular brands, MasterCard and VISA. Together they hold over 80% of the credit card market, both in dollar volume and in number of cards in use. Obviously, these would be the first you would want to accept as payment. American Express has only 5% of the number of credit cards in use, but generates almost 14% of the volume, lending credence to their claims that their clients spend more. Discover rounds out the pack with between 6% and 7% of both dollar volume and card usage.

MasterCard and VISA are both "associations," meaning that their transactions are processed through the thousands of commercial banks in their membership. You can initiate a MasterCard or VISA account through any member bank or processor that you choose. (American Express and Discover card, on the other hand, must be contacted directly to set up their services.)

Almost all commercial banks offer credit card services and there are a few companies that specialize in processing credit cards, which may also sell and lease the verification terminals and receipt printers you will require to offer this service. Either the bank or the processor will handle all of your credit card transactions, funds collection and account deposits.

Approach the bank you already use and inquire about processing fees.

Your logical first step may be to approach the bank you already use and inquire about their processing fees. Once you've received their quotes, you can start looking into other processors. The easiest way to shop is online: Just use a search engine and type in "credit card processors," and you'll be amazed at how many options you get! You can also ask friends and colleagues in the industry who they use: Are they happy with the rates and service they receive? Would they recommend their processor to someone else? The beauty associations you belong to may also offer resources. For instance, membership in ISPA qualifies you for fee reductions and low discount rates with one large credit card processor.

Fees

Offering your customers the convenience of being able to pay by credit card isn't free. Setup rates and processing fees vary widely according to factors such as:

- Volume of transactions
- Dollar value of your average credit card sale
- The amount of risk the merchant bank feels you represent to them

This is why it's so important that you investigate your options carefully before selecting your processor.

The first thing you'll hear about in any quote is the *discount rate*. This rate represents the percentage of credit card sales that the processor will keep as the fee for using its service. The discount rate usually ranges from 1.5% to 4%. That means that if

you have credit card sales on any certain day totaling \$1,000, the amount that will be deposited into your bank account is \$1,000 less the discount rate. Business owners tend to focus solely on the discount rate, but there are many other fees involved in the transaction, and in some cases these can mean you end up paying more per transaction than someone else with a higher discount rate. Here are some examples.

- *Application fee* is a one-time fee charged by the bank when you apply for your merchant account. The fee is usually between \$99 and \$175.
- *Setup fee*, as the name implies, is a charge to initiate your account once you've applied and been accepted by the bank or processor.
- *Transaction fee* is a flat rate charged on each transaction. This fee, which ranges from 20 cents to \$2, is collected each time a credit card is authorized or declined and each time you use your terminal to connect to the credit card network.
- *Gateway fee* is charged to provide



The credit card option adds ease for spa clients purchasing services and retail products.

access to the banking network.

- **Statement fee** is charged by the processing bank to issue an itemized record of your charges and deposits at the end of each month. Statement fees can range from \$5 to \$45 per month.
- **Monthly minimum** is the smallest amount that you will pay each month regardless of sales. This amount can be \$25 or more, even when you don't process any sales.
- **Equipment fee** is the charge for purchasing or leasing your authorization equipment.
- **Batch header fees** are charged for a group of transactions every time the terminal is batched or closed out, usually at the end of the day. Some processors may conceal this fee as a normal transaction fee.

As you can see, the fees can add up. A good suggestion is to categorize the fees three ways: one-time setup fees,

flat monthly fees, and per-transaction fees. This should make it somewhat easier to predict what your expenses will really be. No matter what, your total is sure to exceed the 1.5% you may have been led to expect (see "Sample Comparison" below).

Risk Evaluation

Certain businesses, such as gambling and lottery clubs, travel businesses and those offering adult entertainment, automatically fall into high-risk categories. There's a small risk with spas that sell large amounts of gift certificates, which are classified as "future delivery of service." The risk to the merchant bank is that you might go out of business before delivering those services to the consumer, but as long as you can make the case that your products or services are typically delivered within 60 days, that should be acceptable.

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Sample Comparison

Using companies located on the Internet, we've compiled a sample company comparison, assuming \$1,000 volume on credit card transactions for the month and an average sale of \$55, representing 18 transactions. We've excluded the setup fee because it doesn't really factor into your monthly cost. You can use a similar grid to do your own comparisons.

	Company A		Company B	
	Company Rate	Fee on \$1,000	Discount Rate	Fee on \$1,000
Company Rate	2.25%	\$22.50	2.35%	\$23.50
Transaction Fee	29 cents	\$ 5.22	25 cents	\$ 4.50
Gateway Fee (monthly)	\$20.00	\$20.00	\$29.95	\$29.95
Statement Fee (monthly)	\$10.00	\$10.00	N/A	
Customer Service Fee	N/A		\$10.00 per month	\$10.00
Setup Fee	\$99.00		\$50.00	
Total Monthly Fee on \$1,000 in sales		\$57.72, or 5.7%		\$67.95, or 6.7%

This illustrates the importance of examining all of the fees, not just focusing on the discount rate. Of course, per-transaction fees drop as volume increases. For instance, at \$5,000 per month in credit card charges, given the same parameters, the per-transaction percentage would fall to between 3.3% and 3.5%.

Most credit card processors will also evaluate the credit of the signer on the account. Some processors will be more likely to accept business owners with bad credit and/or bankruptcy history, while others will require excellent credit. It's important to be up-front with your sales representative about your credit history; it may save you unrecoverable fees and time later.

Another way in which potential accounts are evaluated is swipe versus non-swipe accounts. Swipe accounts are those in which 80% or more of the credit cards can be physically swiped through the equipment and read electronically, thus cutting down on fraud and errors. Spas will fall into this category. Non-swipe accounts are those in which more than 20% are not swiped through the terminal, more typical with mail-order businesses. Swipe accounts can typically qualify for a lower discount rate given that the occurrence of fraud is lower.

Equipment

Equipment costs and options are also extensive. Some processors look at leasing or selling equipment and supplies as an additional way to make money.



Electronic payment transactions have skyrocketed over the past 20 years.

Some processors treat it strictly as a pass-through expense, and other processors don't handle equipment at all. Then there are companies that only handle equipment and not processing.

Dawn Burns, merchant services senior sales representative for Fifth Third Bank in Cincinnati, Ohio, does a lot of business with salons and spas, such as the Adam Broderick Salon & Spa, Noëlle Spa for Beauty and Wellness, and Rizzieri Salons and Spa. She recommends the all-in-one Hypercom or Verifone terminals. All-in-one machines are very sensible for the spa environment because they need less space, important on a crowded desk. Burns cautions that prices vary enormously; she has heard customers quoted prices as high as \$1,700 for a piece of equipment that usually sells for \$425.

Whether you buy or lease the equipment depends on your business situation; there are advantages and disadvantages for both options. For example, with most leasing programs you can get a replacement within 24 hours if something happens to a piece of equipment. If you've purchased your equipment, you'll have to pay something to replace it. Also, since technology changes so often, leasing allows you to more easily upgrade to the latest equipment as it becomes available. On the other hand, leasing can cost more over time.

Whether you lease or buy, you will occasionally have equipment problems. Printers come with a one-year warranty, but they're usually the first component to fail. Memory can become corrupted and modems can stop working. There are some companies that also deal with refurbished equipment, but it's only marginally cheaper and probably not worth the investment.

Another new development in equipment is thermal printers. The thermal printing mechanism is faster and quieter, perhaps as much as 10 times faster than printing on two-ply paper, and since the mechanism requires no ribbon, there's one less part to replace.

Burns recommends that you inquire about customer service availability on the equipment you choose. Things do break down, and it's usually on a busy Friday night! Does your processor have a 24-hour/7-day help desk? How quickly can you get replacement equipment if something breaks down? This should weigh heavily in your selection process.

She also advises that you look for a processor who will act as a consultative salesperson for you—someone who can help you negotiate the myriad choices out there and make the right selections for your business, and who can help you qualify for the lowest possible discount rate.

Security Issues

You'll need to take a few steps to protect yourself from fraud when accepting credit cards, and most of these will be outlined clearly by your processor. In swipe environments, processors make the following recommendations:

- Swipe cards whenever possible, rather than keying in the number.
- Complete the authorization before returning the card to the client.
- Do not issue cash advances to yourself or a third party.
- Process refunds properly; don't do cash distributions.
- Verify cards carefully; check signature and expiration date.
- Be aware of suspicious behavior such as attempts to distract you, a seeming disregard for price or no corroborating identification.

Some spas have gone so far as to use the credit cards to activate express

check-out options for preferred clients. By keeping the client's credit card number on file, these spas just ask the client to sign a slip on their way out.

Many software programs allow you to ask for credit card numbers before accepting an appointment or reservation, which gives the spa owner the



Electronic swiping devices are now commonplace and familiar to consumers.

ability to put some teeth into cancellation and no-show policies.

With a little investigation, you can demystify the credit card jungle and offer your clients the convenience of credit card payment without penalizing your bottom line. This can be an important element in continued growth for your salon and spa. ♦

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