

To fee or not to fee

Recent lawsuit settlement allows dealers to charge credit card fees to customers

By Pat Brown

In July, a lawsuit settlement against VISA and Mastercard opened the door for merchants to begin charging retail customers a fee for using their plastic to pay for goods and services.

This presents a dilemma for many retailers who would really like to recover their ever-growing “swipe” fees but worry about being competitive in the market.

As tire and service shops know, these swipe fees of between 1% and 3% cut into their already thin margins, especially for tires. Now that the door is open to begin charging customers for these swipe fees, it presents a double-edged sword for dealers.

Do they dare to add on a small percentage to a ticket which is already much higher than consumers anticipate when they buy tires? Many consumers already suffer sticker shock when they realize that the OE-comparable tire with an H speed rating will cost them upwards of \$150 a tire not including mounting, balancing and warranty packages. Will the extra 1% to 3% be the final straw that sends them to a discount shop?

Unraveling the mystery of credit card fees

Before we tackle the issue of whether to charge a fee, it's important to make sure every tire and service shop understands the credit card jargon:

Discount rate — price paid by business to process payment transactions. Usually consists of a combination of items:

1. Interchange rates — rates are determined by card associations, i.e. VISA, Mastercard, and paid to the issuing bank, and are usually a percentage plus a transaction amount.

2. Assessments — fees determined and paid to the card associations (approximately 11 basis points).

3. Mark-ups — profit add-ons by your merchant services bank.

4. Other fees — authorization request fees:

- monthly statement fees,
- monthly minimum fees,
- batch fees,
- customer service fees,
- annual merchant fees, and
- chargeback fees.

NOTE: These may vary as to how they're labeled on monthly statements.

If it seems like there is an endless list of fees, this is just the tip of the iceberg. There are also a variety of methods in which merchant service programs are marketed by service processors. Here are some examples of merchant service programs which are offered to dealers:

- **Interchange plus** — the interchange rate plus a bank markup.
- **Fixed rate plus** — a minimum interchange rate, plus excess of interchange in excess of minimum.
- **Tiered pricing** — transactions put into tiers based upon transaction types.
- **Bill backs** — a variation of interchange plus.

The next issue is making sure that your transactions are charged the lowest possible rate available for the program that



Take these steps to prevent credit card disputes

Provide a superior customer experience

Card not present at point-of-sale

1. Indicate business name and customer service phone number on cardholder statements.
2. Email order, shipment and credit confirmations.
3. Provide accessible live customer service agents.
4. Clearly indicate your return and shipping policy and request that shoppers "click and accept" the policies before the transaction can be completed.



Manage fraud at the time the transaction is processed

Card present at point-of-sale

1. Always obtain an authorization for the full amount, at the time of the purchase and via your terminal.
2. Always swipe the card (do not key enter), review customer signature and verify the card number.
3. Refuse a card which is declined for authorization.

Card not present at point-of-sale

1. Use Address Verification Service (AVS) and CVV2, CVC2 and CID (three-digit code) verification. These are security features for credit card transactions on the Internet and over the phone. CVV and CID represent Card Verification Value (varying with the card issuers).
2. Obtain signed proof of delivery.

Manage chargebacks and retrieval requests

Both card present and card not present at the merchant's point-of-sale

1. Review chargebacks and retrieval requests regularly.
2. Respond promptly to retrieval requests.
3. Research and manage your chargeback and retrieval requests on ClientLine.
4. Gain efficiencies by resolving disputes online, with Electronic Integrated Dispute System (known as eIDS).
5. Use the online Resolve Chargeback Tool.

Source: David Eckroth, controller for Northwest Tire Inc., Bismarck, N.D., and a member of a 20 Group.

you are with. David Eckroth, controller for Northwest Tire Inc., Bismarck, N.D., spoke to his 20 Group dealers recently

on the topic of credit card fees: "Managing processing costs is critical in keeping the fees as low as possible. One way to do this is to avoid downgrades, or transactions which do not meet the card association requirements to qualify for lowest interchange rates. The main reasons for downgrades are: key entering rather than swiping; not using AVS (Address Verification Service) on key-entered transactions; not settling transactions daily; and not answering questions for input items such as sales taxes."

Managing card disputes

Sometimes the bank will "chargeback" a transaction (cost of goods plus fee) when the customer disputes a charge. When this happens, the amount is sometimes automatically deducted from your checking or savings account along with any chargeback fee.

While this doesn't happen often in tire and service transactions, it can happen and dealers should be aware of this potential action from an unhappy customer.

A cardholder can initiate a chargeback within 120 days of the delivery date of the products and/or services. A card issuing bank also can initiate a chargeback within seven to 75 days.

Some chargebacks can be reversed and resolved in your favor without the loss of the sale. It's important that the dealer provide all of the information regarding the transaction, such as proof of delivery, signed receipt, invoice, etc. Document how this information is provided through the Electronic Integrated Dispute System (eIDS) within 14 days of the chargeback issuance date.

Preventing credit card disputes

Of course the best way to avoid card disputes is to satisfy

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customers even if they end up with a higher ticket than anticipated. Eckroth provided a guide on how to prevent card disputes before they end up being a problem (see the sidebar on page 62).

Eckroth also suggests that at least once a year you should request a review from your credit card merchant services processor.

Ask to review the makeup of cards accepted, a review of the history of any downgrades, and have them provide a detailed cost analysis of all transaction fees.

How to reduce credit fees

Hank Feldman, president of Performance Plus Tire and Automotive in Long Beach, Calif., recently won second place in his 20 Group's Best Idea Contest for giving his group a simple three-step approach to reducing fees. If dealers follow these steps, they will secure the most competitive fees, he says:

1. Quote: Get quotes at least twice a year; they can be done over the phone; use only direct processors; and send two months of statements for review.

2. Negotiate: Always ask for the interchange rate plus the lowest possible markup; always ask for the lowest possible per-transaction fee; ask for same-day credit at the bank (24 hours); ask for free equipment; and offer your existing provider the opportunity to match rates.

3. Monitor: Request monitoring of transactions to ensure your account is set up correctly, avoiding increased interchange rates; get verifiable references; and ask for a dedicated account representative.

Should you charge a fee?

In recent 20 Group meetings of tire dealers from all around the U.S. and Canada, the question was asked whether these business owners would consider passing along swipe fees to their customers. Everyone was in agreement, that it would be difficult to add on the fees unless it was an industry move. Shane Adams, owner of Trax Tire in Mobile, Ala., said, "The fees are just a cost of doing business."

The consensus was that dealers will likely take the lead from the large discounters before they would be bold enough as to start charging the fees.

Kelly Burgess, president of Superior Tire in Bullhead City, Ariz., thought eventually the fees would be charged by all retailers, pointing out, "Who could have predicted that we would pay for banks to hold our money?" ■

Pat Brown is vice president of marketing for Dealer Strategic Planning Inc. (DSP), which has formed four 20 Groups made up of non-competing independent tire store owners in the U.S. and Canada. Its goal is to help them improve bottom line profits through idea sharing, financial benchmarking and best practices. DSP and Modern Tire Dealer formed a strategic alliance in 2010 to better serve the tire industry by sharing resources.

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