Surcharging: the key to unlocking credit card payments

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1. Introducing surcharging as a service

Credit card payments are on the rise in B2B commerce. Every business needs a strategy around if and how they will accept them. Surcharging is a potential part of that strategy.

What is surcharging?

A surcharge is an additional fee added to the advertised price of a good or service. Surcharges are used by suppliers to compensate for the cost of credit card acceptance fees.

Surcharges are worth considering if:

- You have a significant number of customers who use cards and interchange fees are cutting into your margins.
- You are not accepting credit cards because of interchange fees.

Surcharges can be a legitimate way to recover some of the money lost in processing credit card payments.

Traditionally, surcharging has not been a simple process as there are many steps companies must complete to attain and maintain compliance. **Billtrust is innovating the payments space by reframing surcharging as a service.**

We do all the work for you to maximize margins while maintaining compliance and customer acceptance.

2. The benefits of credit card acceptance

Industry data shows that customers pay more quickly with a credit card vs. ACH or check payments.

Instead of focusing solely on card acceptance fees, suppliers should take a holistic approach to manage their payment acceptance policies in a way that promotes flexibility and a good customer experience.

Suppliers should consider whether the increased speed of payment and efficiency justifies the cost of interchange fees.

Surcharging can eliminate the burden of interchange fees for the supplier, but it shifts the costs to the buyer which can have impacts on the customer relationship.

When deciding to accept credit card payments with a surcharging program, suppliers must be confident that they have the tools to notify and communicate with their customers and the card issuers.

3. Understanding the motivations of buyers and suppliers

Understanding the motivations of buyers and suppliers is essential for companies looking to do business. By understanding what buyers want and what suppliers need, companies can find ways to bridge the gap and create successful partnerships.

What buyers want:

1. Hold onto cash
Credit card payments give buyers an additional 30 days before they must send cash payments.

2. Multiple payment options
More options allow buyer to pay in the ways that are most strategic for them.

3. Less paper/manual work
AP automation works best with electronic payment types.

4. DPO extension
Buyers can hold onto their cash longer because their credit card issuers give them an additional 30 days to pay after the credit card payment is made.

5. Rebate revenue stream
Corporate card purchase rebates average between 1-3%, adding up to big savings for buyers and a steady rebate revenue stream.

6. Save money
The longer buyers can hold onto cash, the less they need to borrow and the more they can invest in productive activities.

What suppliers want:

1. Get paid faster
There is a significant cost to extending credit to customers. The faster that suppliers can get paid on their invoices, the less they will need to borrow to meet their expenses.

2. Ease of use / familiar solutions
Opening credit card acceptance should not make payment processing more difficult.

3. Automation
Credit card acceptance channels should lead to fewer errors and less manual work.

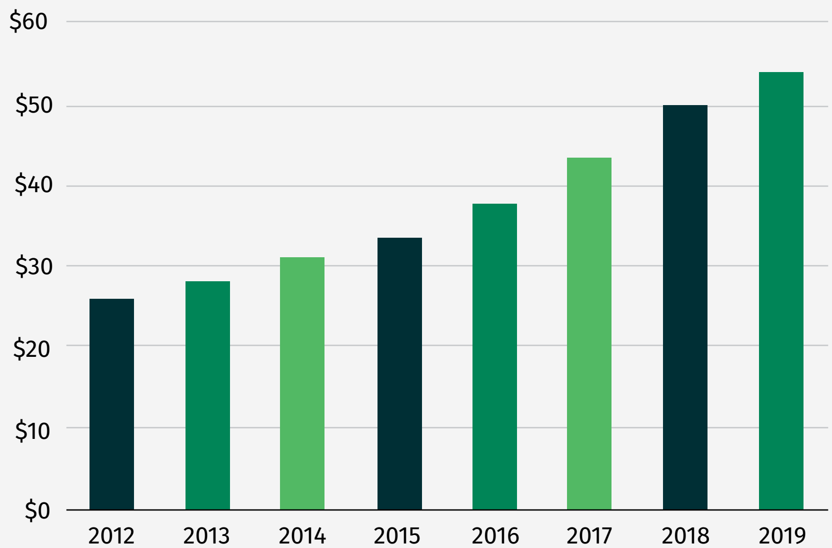
4. DSO reduction
Credit cards payments are made faster than ACH and check payments.

5. Fee reduction
Suppliers do not want credit card acceptance fees to cut deeply into their margins.

6. Grow/retain business
Accepting credit card payments is a positive for customer relationship because credit cards are the preferred payment channel of most buyers.

Increased card usage frequently comes at the expense of supplier margins

US Merchant Visa/MC Swipe Fees



Note: 6/21/20 Wall Street Journal | Swipe fees for Visa and Mastercard credit cards | Source: The Nilson Report

Merchants pay 1.5-3.5% fees on credit card transactions… or 20-40% of their net margins as more payments are going digital.

(A. Damodaran | NYU Stern)

4. Implementing a customer-focused surcharging program

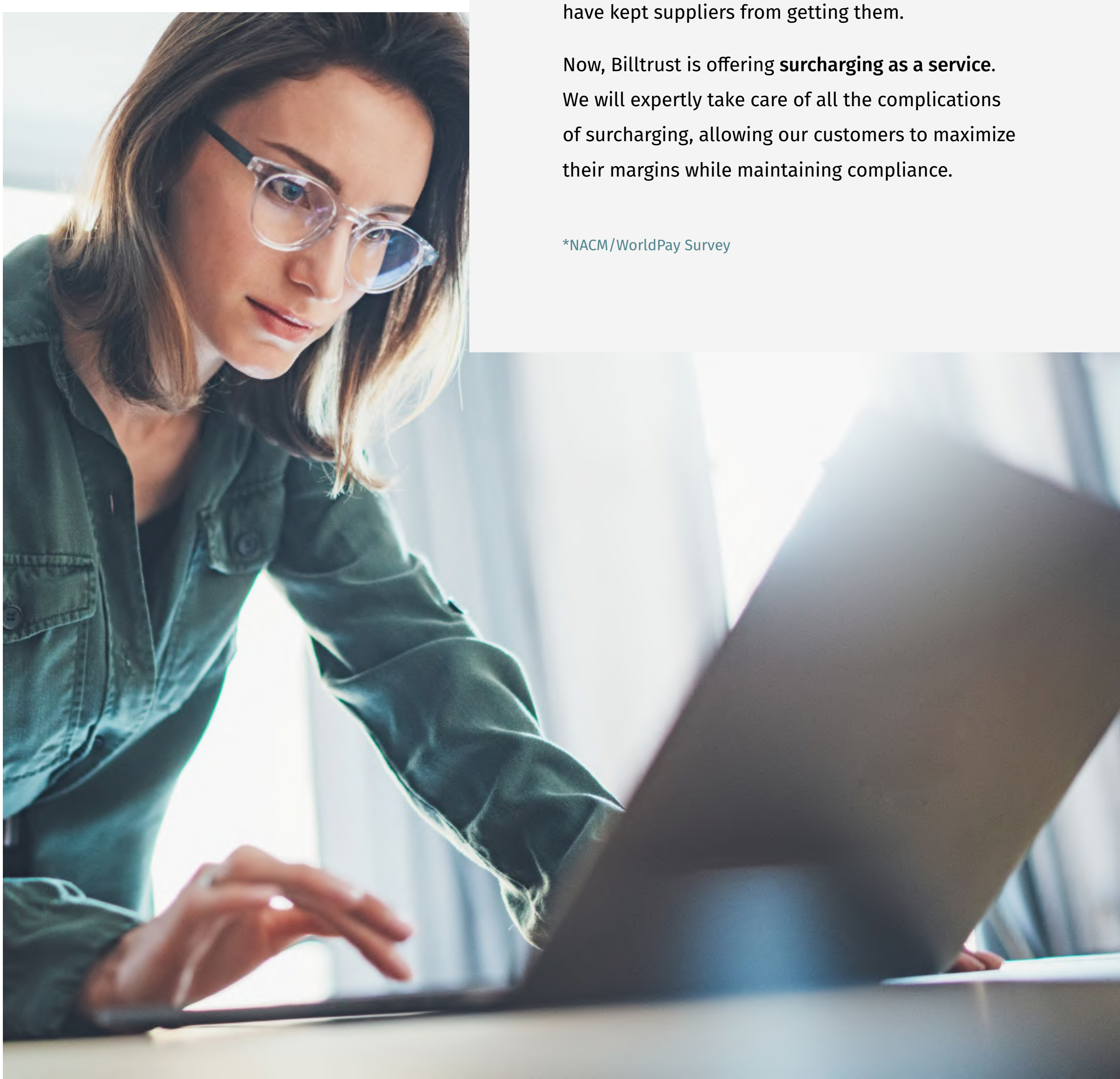
The first step is to gain a solid understanding of the cost of card acceptance. The card brands, as well as state laws, mandate that a business can only institute a surcharge up to the cost of acceptance and not more.

While buyers may not embrace the decision to implement surcharging, communicating the new policy early, and with transparency, will go a long way towards maintaining a positive relationship. The new surcharging policy should be formalized in trade agreements and broadly communicated internally, ensuring buyers receive consistent information during all interactions with the supplier.

If you are already accepting card payments, surcharging has the potential to drive more buyers towards ACH or check payments, which can drive downstream operational impacts and additional costs. Credit, collections and cash application are key drivers of customer experience, and a successful surcharging policy includes appropriately resourcing those teams to handle an influx of more manual payments and decoupled remittances.

If you are not accepting card payments today, opening the credit card channel with a surcharge program can potentially move check and ACH payments onto card, speeding the path to cash and putting more remittance data and payments into the same channel – which will help both your cash application and collections processes be more efficient.

5. The necessity of surcharging as a service



63% of suppliers polled want to surcharge, but only 15% currently do*

Surcharging offers immediate benefits to suppliers, but implementation is difficult. Customers and card brands must be managed. Fees must be calculated and made compliant with card rules and individual state regulations.

The benefits are there, but the hurdles have kept suppliers from getting them.

Now, Billtrust is offering **surcharging as a service**. We will expertly take care of all the complications of surcharging, allowing our customers to maximize their margins while maintaining compliance.

*NACM/WorldPay Survey

6. Billtrust provides real-time, automated, compliant surcharging

Identifying approved cards

Our technology automatically differentiates between all card types — credit, debit, prepaid, and government-issued — to maintain compliance.

30-day card brand notification

Billtrust ensures merchants properly notify all relevant stakeholders — card brands and acquirers — in a timely fashion.

Calculating surcharge rates

Our engine automatically calculates the exact surcharge amount based on the transaction total, ensuring maximum rates are not breached and all card brand rules are being followed.

Customer surcharge

Billtrust automatically processes the purchase amount and credit card fees as one transaction at checkout and provides you with the most updated proper-notice protocols.

Evolving state legislation

We diligently oversee evolving and independent state regulations so merchants with national, omnichannel presence remain compliant.

Card brand rules

We continuously navigate card brands' multifaceted directives so merchants can maximize their margins with peace of mind.

The convenience of card payments without the cost

Other providers charge a high fee and require manual intervention to maintain compliance. The Billtrust Payments surcharging program allows you to offer your buyers fully-compliant, reasonable rates that are automatically calculated at the point of transaction.

The ROI is simple

ANNUAL SURCHARGED CARD VOLUME	ANNUAL PROCESSING FEES RECOVERED	PAYBACK PERIOD
$5M	$125K	4 weeks
$10M	$250K	3 weeks
$25M	$625K+	2 weeks

Billtrust's offering is different because we control your data from end to end, achieving maximum L2/3 and large ticket interchange rates on card transactions throughout the entire lifecycle of the transaction. This means that we process your payments more efficiently and lower payment costs for your buyers.

How it works

Our surcharging service works just like a sales tax calculator. As soon as your buyer offers a credit card number to pay an invoice within your Billtrust Invoicing solution, we dynamically calculate and transparently display the compliant surcharge amount following all state and card brand regulatory requirements. Your buyer always retains the option to avoid paying the cost of their card by switching to an alternative payment method such as ACH.

Compliance as a service

Billtrust manages your compliant surcharging program, relieving your organization of the associated effort and risk. We monitor 67 different federal, state and card brand regulations continuously, ensuring 100% compliance. Our dynamic surcharge calculation engine ensures the appropriate surcharge amount is applied without violating card brand merchant policies. We also allow you to turn off card acceptance in non-surchargeable buying scenarios based on your policies. Want to allow your buyers to pay by debit? You can do that. Want to block debit and only allow surchargeable card types? You can do that too.

7. Surcharging success

Leading Building Material Distributor optimized its payments costs and saved $400K in the first 30 days.

The challenge

- Rising cost of credit card payments
- Negative margin impacts
- Managing numerous confusing and inconsistent card regulations
- Needed an automated surcharging solution

The solution

- Installed surcharging solution into their existing online payment journey
- Customers have payment options to avoid surcharging
- Solution technology enabled them to tailor surcharge policy to suit their needs

Key results in first 30 days

- $370K in direct processing fees recovered
- 50% increase in e-check and online bill pay volume (at significantly lower cost)
- $1,000-$10,000 surcharged order value range
- Surcharging credit, purchasing and some virtual cards

8. Why the Billtrust surcharging solution is different

- Suppliers can create rules for card acceptance based on surcharging ability. For example, block debit cards and only allow credit cards that can be surcharged
- End-to-end control of supplier data to drive efficiency, lower rates and savings for buyers
- Flat, transparent surcharging rates, and buyers have the option to switch to another payment method, such as ACH
- No manual intervention required to maintain regulatory and network compliance
- The buyer always retains the option to avoid paying the cost of their card by switching to an alternative payment method, such as ACH

Two simple steps to surcharging

1. Buyer offers a credit card number to pay an invoice within the Billtrust Invoicing solution
2. Appropriate surcharge amount is dynamically calculated and transparently displayed

9. Finding the right balance

Surcharging can help reduce or eliminate the cost of accepting credit card payments, but suppliers should think about how it may affect their relationship with customers.

Buyers prefer paying with credit cards for many reasons including convenience and security, as well as access to float and the potential to earn rebates from their issuer. Surcharging can discourage buyers from making credit card payments.

Finding the balance between the cost of card acceptance and customer satisfaction is critical to retaining buyers and remaining competitive within your industry.

Merchant Considerations

B2B credit card acceptance has grown rapidly over the past year as more and more suppliers are looking to improve cash flow and give their buyers an option to quickly settle their invoices.

The decision to incorporate surcharging looks different for every business, but here are some considerations that suppliers should weigh as they determine their approach:

- How will this impact customer buying behavior?
- What downstream operational impacts can we expect by shifting buyers to non-card forms of payment?
- How will this impact DSO?
- What forms of payment do competitors accept?
- Are we appropriately managing risk?
- Is our new policy compliant with card brand and government surcharging regulations?

Tools to Manage the Cost of Credit Card Acceptance

- Establish a payments portal that enables suppliers to enforce payment rules while lowering administrative costs and ensuring PCI compliance.
- Introduce special interchange rates that lower the cost of credit card acceptance for certain buyers.
- Implement daily interchange qualification monitoring to ensure consistent capture of advantageous Level 2, Level 3 and Large Ticket interchange rates.
- Introduce a time-based payments acceptance policy where buyers can make credit card payments within a window that makes sense for the supplier.
- “Split” the credit card processing fees with buyers by introducing a surcharge for less than the fees to the supplier.
- Restrict credit card usage for invoices over a certain threshold.
- Offer early pay discounts for ACH payments to entice buyers away from cards.

Get started

Contact sales@billtrust.com to talk to an expert today!

billtrust

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