Interchange essentials for fuel marketers

How to make sure you are receiving the best rates on your payment acceptance

With the warm weather upon us, most customers think fuel marketers have closed up shop for the summer. In reality, this is when the energy industry gets down to business. There is equipment to repair, software to upgrade and offices to organize. It's also the time of year to closely review commercials, including credit card acceptance rates.

In the order of importance, here are the three tips I always provide companies to ensure they are receiving the best rates on their payment acceptance.

First, make sure your company is set up correctly with each card brand

In 2005 MasterCard and Discover classified fuel marketers as a Utility and a few years later Visa followed suit and classified fuel marketers as an Emerging Market. This reduced the cost of accepting these card types at the card brand level and made a large impact on reducing the fees you pay. To qualify for these rates you have to be set up properly as a fuel marketer. Make sure that the company you're working with can pass both codes (Utility and Emerging) so that you can achieve the best rates across all card brands. One thing that most fuel marketers are surprised to find out is that AMEX also offers a "Services" rate. While it is still a little more expensive than the other brands, it's much cheaper than their standard rate and will lower your fees on AMEX.

Second, make sure to access updated payment technology to clear up any downgrades

This is the one that I get asked the most questions about, so let's spend some time on it.

Each type of card that your business accepts has a price set by the card brands, also known as Interchange. There are roughly 30ish Interchange categories that typically affect fuel marketers spread between Visa and MasterCard and with a variance in card acceptance, business classification and platforms, Interchange cost can fall into over 500 buckets (yup, pretty crazy).

The card brands associate a cost bucket on each payment card that your company accepts. The least expensive rate for each card type is referred to as Target Interchange and is the best possible rate you can achieve. But as with everything, there's a catch. To achieve this magical Target Interchange the card brands require that everything is just right. You have to be set up properly, following all card brand rules, with all necessary data (per card type) passing through- whether that be a simple CVV, or more complex data such as tax rate or customer ID. This might seem easy, but with 500 buckets, all requiring different bits of data, updated technology plays a major role.

Some companies perform really well, however, if the technology your company uses is outdated, you will be unable to pass along certain qualifying criteria with your payment transactions. The most common payment gateways utilized in our industry were created in the early 2000's and developed for generic business types, not the unique way fuel marketers run their business. Since the data exchange happens at the gateway level if the gateway can not pass the necessary data the card brands have no option, but to place the transaction in a more expensive bucket. When Target Interchange is missed, it is referred to as a downgrade. The result is that fuel marketers end up paying more money than they would if the qualifying data had been passed correctly, in some cases up to .75%.

For instance, outdated technology may not be able to pass a tax ID, which is a data requirement for Target Interchange on Business cards. If you are not sending this data with these transactions, Target Interchange for a B2B transaction is missed. In addition, some of the most popular card types today were not around 20 years ago so the capability to pass the qualifying data needed for Target Interchange was never included in products built prior to the introduction of these card types.

Why is this important? Well, 90% of the cost on your processing statement is actually made up of Interchange (those 500 buckets) and only about 10% of the cost being attributed to the credit card processor's expense and profit. In most cases a misclassification in the Interchange buckets actually cost fuel marketers more than savings from the price offered by your processor. Take the example of Business cards above, for every Business card you accept, you could be paying up to .55% in downgrade fees. most companies accept a healthy number of Business cards and by passing qualifying data, they can save thousands of dollars every month at the Interchange level. This is only achieved by using technology that was created to identify and pass the qualifying bits of data needed to ensure that 90% of your card acceptance expense is optimized.

Finally, negotiate the basis points

Lastly, focus on the processors proposal. Basis points, monthly fees and expenses make up the last 10% of the statement. Since all processors have the same Interchange costs this should be the easiest thing to negotiate. Review the Basis points (this is the markup on the Interchange) they should be a fair assessment based on the size of your business and risk associated. In reviewing your proposal look for fees such as "club", "portal" or "security" (outside of PCI) these could be hidden costs and add up quickly on a per month basis. Don't forget to review your gateway statement. Sometimes that is a separate bill and savings at the gateway level could save you 5 or 10 cents on every transaction.

This step might seem like the first thing to worry about, however, it's not. Remember, Interchange dwarfs processor expense and, once you've solved for Target Interchange, you have guaranteed that 90% of fees are passing correctly.