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Make Merchants Love You – and Avoid Litigation

With more small businesses embracing digital commerce, old-fashioned customer service is still the glue that binds credit card processors to their merchant clients. Unlike large companies that hold agreements for credit card processing directly with the credit card companies, owners of restaurants, boutiques and professional services offices contract with third-party processors to accept card payments.

Change can be difficult for small business owners as they move from cash-only sales and see how cash flow delays from credit card payments affect their bottom line. One processor recently found his corporate bank accounts frozen by the local sheriff after a misinformed merchant accused the processor of stealing funds. This wasn't true. Ultimately, the sheriff returned the money and dropped the investigation, but only after the processor incurred substantial legal fees and sleepless nights. This could have been avoided had the processor better explained his contract terms from the outset.

Processors who rush through a contract closing, avoid phone calls or don't answer emails from a concerned merchant, shouldn't be surprised if their client starts crying "Thief!" when payments don't show up overnight. Many lawsuits could be avoided through clear and constant communication with merchants. Following are tips for creating successful, long-lasting processor/merchant relationships.

- **Be available** – Business relationships don't exist in a vacuum. Answer merchants' emails. Take their phone calls. Support them and work through problems that arise. Check in regularly with merchants even if you don't have a specific reason to call. Make them feel appreciated.
- **Anticipate needs** – Sit with your clients to explain the contract. Let them know the procedures and timing involved before their payments arrive. Reassure them about hold-back periods and how they are handled. Look for ways to help them.
- **Be transparent** – Help merchants understand your system. Remove the mystery of the myriad rates and fees. Explain why they exist and dispel myths about padding prices. Carefully explain costs and how to read a statement. Give more than is expected. Show merchants the flow of their funds, including date and amount of future disbursements.
- **Communicate** – Decode processing industry jargon and abbreviations. Provide a "dictionary" of terms to help merchants unravel the contract and statements, and to make it easier for them to convey their concerns. Listen attentively. Be sincere. Acknowledge their worries. Encourage feedback. Follow through with what you say you will do. Build trust.

Customer service is hard work, yet at the end of the day, a healthy business relationship is necessary to maintain clients and increase your bottom line.

Processors Take all the Risks

The fact that processors take all the risks should cement your resolve to interact with your merchants about the terms and conditions of your agreement. To limit risk, a processor must have a clear contract with the merchant. Therefore, it's recommended that merchant agreements include the following:

1. Sufficient holdback period
2. Transaction, refund and chargeback fees
3. Access to the merchant's bank account
4. Extended holdback period following termination of merchant agreement
5. Termination fee

When negotiating the holdback period, keep in mind that if it's too long, the merchant will not have sufficient cash flow to maintain a business. Therefore, consider negotiating lower transaction fees in exchange for a longer holdback

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period. Conversely, larger transaction fees can protect a processor with a shorter holdback period.

Second, require the merchant to maintain an account with the processor with a minimum threshold balance. The amount should be sufficient to reimburse the processor for any potential disputed transactions. Most credit card companies allow their consumers to dispute transactions for up to six months, sometimes longer. Therefore, the processor might want to unilaterally increase the minimum threshold balance as he or she deems necessary.

Third, the agreement should allow the processor to "set off" any disputed transaction from future transactions. For example, the processor should be entitled to retain $100 from one of the merchant's future transactions if a consumer purchase services for $100 and disputes the transaction after the processor has released the $100 to the merchant. Likewise, the processor should have the ability to debit the disputed amount from the merchant's bank account.

Should the agreement be terminated, the processor remains liable for disputed transactions for at least six months. Therefore, at a minimum, the processor should be entitled to retain all transacted funds until six months after the last transaction. The final layer of security is a termination fee that will provide the processor funds in the event of a shortfall for disputed transactions.

Rather than fear the merchant will be scared off by contract restrictions, by clearly identifying the fees costs, and terms of the agreement, you will avoid potential lawsuits by uninformed merchants. In the end, the cost of a lawsuit will significantly outweigh the loss of one merchant account. Merchants who better understand their rights and obligations will be satisfied, long-lasting customers. P

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