









PRICING

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PIVOTAL
PAYMENTS
POWERING YOUR SUCCESS

Agenda

-  Components of Pricing
-  Interchange
-  Assessments
-  Methods of Pricing
-  Other Payments Types
-  Competitive Strategies

COMPONENTS OF PRICING

INTERCHANGE

The rules and rates set by the Associations (Visa/MasterCard/Discover) for specified risk level which goes to the Issuing Bank

ASSESSMENTS

Dues charged by the Card Brands on every transaction for marketing and advertising cost (Visa – MasterCard Assessments are .0011 (.11% basis points) except for MasterCard transactions > \$1,000 @ .0013)

COST

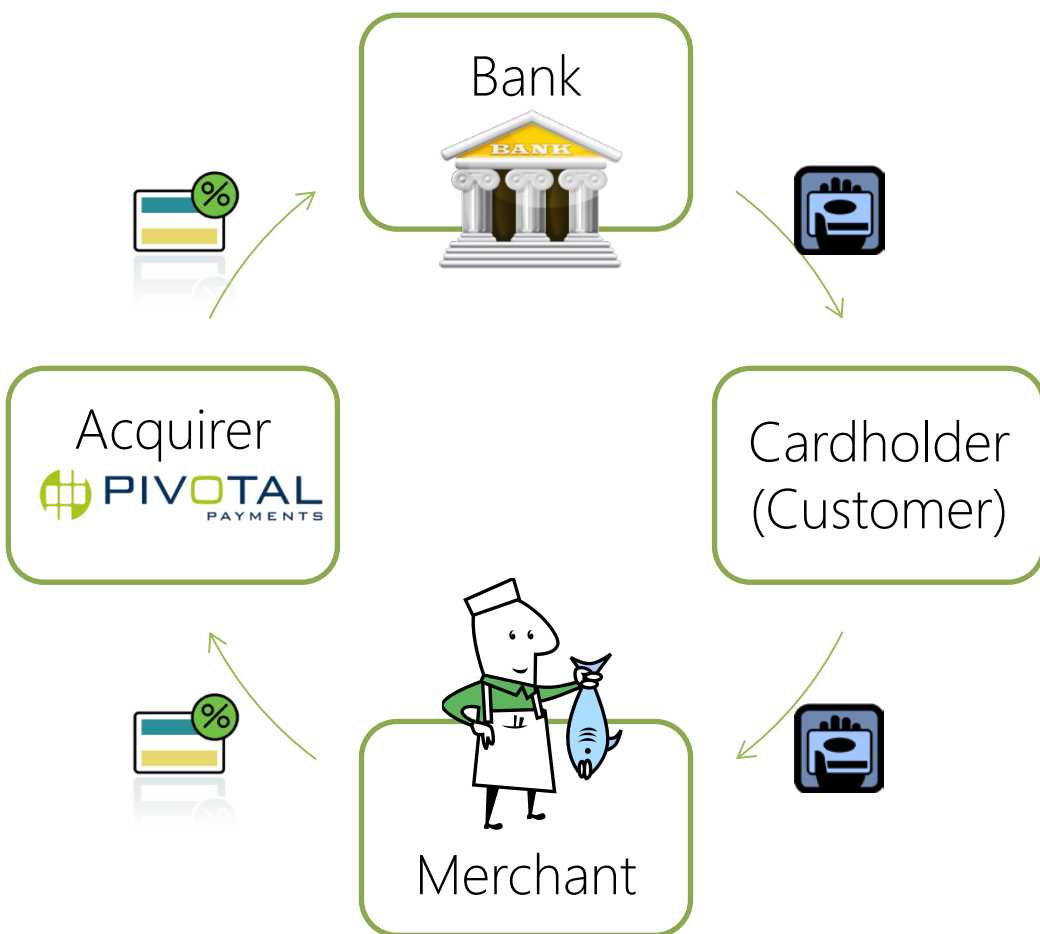
The processors expenses, including operating costs and third party vendor expenses. Operating costs include facilities, salaries and commissions, employee benefits etc. Third party vendor expenses include back-end cost to networks or processing platforms etc.

MARGIN

The contribution or bottom line



Acquirers such as Pivotal Payments pay the card brands a fee called interchange as a part of the cost of a transaction; therefore interchange is considered the cost of processing.



- Each card brand designates their own rates for interchange.
- There are currently more than 900 interchange categories.
- The rates are typically modified twice per year, every April and October.
- Interchange rates are public knowledge and readily available on each card brand's respective website.




- Interchange is paid to the issuer of the card presented at the time of sale.
- Each of the 900+ combined interchange categories is comprised of two pieces:
 - a percent of the sale (%) and
 - a flat dollar amount (\$)

There are more than 900 interchange categories today, however there are commonly three types of transactions, qualified, mid-qualified and non-qualified. Sometimes sales offices refer to just two types of transactions, qualified and non-qualified.

There are interchange reimbursement programs offered in certain industries that sales offices should be aware of. These special programs offer reduced interchange fees to the merchant therefore offering savings that does not impact the sales office's revenue.

These programs include utilities, business to business (level II/level III) and supermarket, to name a few.

- 
- Swiped / Card Present
 - Settled within 24 hours

QUALIFIED

- Key Entered / Card NOT Present
- Rewards Card

MID-QUALIFIED

- Business / Purchasing / Corporate Card
- Settled outside 24 hour timeframe

NON-QUALIFIED

Simply put, interchange is impacted by two things:

MERCHANT BEHAVIOR

- Batch Settlement

Example:

Settled outside of 24 hours

Visa EIRF

Settled outside of 72 hours

Visa Standard

- Hand Keyed / Card Swiped
Employee Education & Training
- Terminal Compliance & Lifecycle
Manufacturer Retirement etc.

CARDHOLDER BEHAVIOR

- Card Type

Example:

Rewards Card

Business / Purchasing / Corp Card

- Brand Preference
- Card Condition

ASSESSMENTS

Assessments are a small portion of each transaction which are paid back to the card brand. If a customer presents a Visa card at a merchant location, Visa will get a small percentage of that transaction back in assessments.

Assessments are the only revenue that the card brands receive on a merchant sale. The card brands use assessment income to pay for branding and advertising as well as their expense of doing business. Assessments are currently set at:

- .12%* basis points (bps) MasterCard
- .11% basis points (bps) Visa
- .105% basis points (bps) Discover

While the fee for assessments is small, it's a portion of each and every debit and credit transaction ran, that adds up quickly across the world.

Assessments have helped pay for you to remember slogans like, "it's everywhere you want to be" (Visa), "priceless" (MasterCard), and "it pays to Discover."

There are many different ways to price a merchant and sales offices all sell their product differently.

Every merchant is unique and should be reviewed for any pricing concessions or considerations. The most typical pricing structures in the market today are

2 tier, 3 tier, 4 tier & interchange plus (a.k.a. cost plus)

While there are unique ways of pricing, typically all merchants are setup with a discount rate ("qualified rate") and some type of surcharge for mid-qualified and non-qualified transactions.

EBB - Enhanced Bill Back

Discount Rate
Non Qualified Rate

4 Tier

Signature Debit Rate
Discount Rate
Mid-Qualified Rate
Non-Qualified Rate

3 Tier

Discount Rate
Mid-Qualified Rate
Non-Qualified Rate

Interchange/Cost Plus

Discount Rate
Qualified Rate
Mid-Qualified Rate
Non-Qualified Rate

SCHEDULE A							
Billing Options: <input checked="" type="checkbox"/> Daily <input type="checkbox"/> Monthly							
Card Type Accepted	Discount Rate	Surcharge		Transaction Fee			Authorization Fee
	Qualified	+Mid-Qualified	+Non-Qualified	Qualified	Mid-Qualified	Non-Qualified	
Visa, M/C, Discover Check Card	1.79 %	1.00 %	1.65 %	\$.10	\$.15	\$.20	\$.20
Visa, M/C, Discover Credit Card	1.79 %	1.00 %	1.65 %	\$.10	\$.15	\$.20	\$.20

TIERED EXAMPLE:

Qualified = 1.79% + \$.10 (+ \$.20 authorization)

Mid-Qualified = 1.79% + 1.00% + \$.15 (+ \$.20 authorization)

Non-Qualified = 1.79% + 1.65% + \$.20 (+ \$.20 authorization)

SCHEDULE A							
Billing Options: <input checked="" type="checkbox"/> Daily <input type="checkbox"/> Monthly							
Card Type Accepted	Discount Rate	Surcharge		Transaction Fee			Authorization Fee
	Qualified	+Mid-Qualified	+Non-Qualified	Qualified	Mid-Qualified	Non-Qualified	
Visa, M/C, Discover Check Card	%	%	%	\$	\$	\$	\$.20
Visa, M/C, Discover Credit Card	%	%	%	\$	\$	\$	\$.20
Cost Plus	.20 %						

COST PLUS EXAMPLE:

Qualified = .20% + Interchange (+ \$.20 authorization)

Mid-Qualified = .20% + Interchange (+ \$.20 authorization)

Non-Qualified = .20% + Interchange (+ \$.20 authorization)

Enhanced Bill Back is often also referred to as interchange differential or two tier pricing.

A **qualified discount rate** is assigned to each merchant and is billed on each transaction. Merchants also pay the **difference of interchange** which is where the transaction qualified in interchange less the best possible rate.

For example, a retail transaction qualifying at EIRF would cost 2.30% + \$.10 at true cost, less the best possible rate, CPS Retail at 1.51% + \$.10 would be a difference of .79% bpts.

In addition, transactions that do not qualify in interchange are billed a **surcharge** assigned by the sales representative (between .20%- .80% bpts).

EBB - Enhanced Bill Back
 Discount Rate
 Differential
 Non Qualified Surcharge

4 Tier
 Signature Debit Rate
 Discount Rate
 Mid-Qualified Rate
 Non-Qualified Rate

3 Tier
 Discount Rate
 Mid-Qualified Rate
 Non-Qualified Rate

Interchange/Cost Plus
 Discount Rate
 Qualified Rate
 Mid-Qualified Rate
 Non-Qualified Rate

EBB

- Easier to understand
(Merchant)
- Only 2 Rates
Qualified & Non
Qualified
- Typically most
profitable to
partner

3 Tier

- Generally easiest
to understand
(Merchant)
- Simple structure,
only 3 rates
- Common across
processors –
nothing new to learn

Cost Plus

- Easy to sell &
ensure profit
(Sales Rep.)
- Benefit of true
interchange
expense
- Most competitive
structure in
market

Pivotal Payments is an OptBlue® processor. You can price a merchant the same for American Express as you would with Visa, MasterCard and Discover.

American Express Program tiers are as follows:

BUSINESS TYPE	TIER 1 TRANSACTION AMOUNT	TIER 2 TRANSACTION AMOUNT	TIER 3 TRANSACTION AMOUNT
B2B/WHOLESALE	≤ \$400	\$400.01- \$7,500	> \$7,500
HEALTHCARE	≤ \$150	\$150.01 - \$2,000	> \$2,000
MAIL ORDER & INTERNET	≤ \$150	\$150.01 - \$3,000	> \$3,000
RESTAURANT	≤ \$25	\$25.01 - \$150	> \$150
RETAIL	≤ \$75	\$75.01 - \$1,000	> \$1,000
SERVICES & PROFESSIONAL SERVICES	≤ \$400	\$400.01 - \$3,000	> \$3,000
TRAVEL & ENTERTAINMENT	≤ \$100	\$100.01 - \$1,000	> \$1,000
OTHER	≤ \$100	\$100.01 - \$3,000	> \$3,000
PREPAID	≤ \$75	\$75.01 - \$1,000	> \$1,000

0.30% CNP fee applies for all key entered transactions where card stripe data can not be transmitted.

0.20% Partner BuyRate applies for all AmEx OptBlue® transactions.

0.15% Network Access fee applies for all AmEx OptBlue® transactions.

0.40% Cross Border fee applies for all AmEx transactions processed on foreign credit cards.



For consumers who have a checking account, a debit card is typically tied to that card to allow for convenient purchasing options at retailers. Debit transactions pull funds from the account immediately unlike credit transactions which is essentially a line of credit or a loan.

There are two types of debit transactions:

Signature Based
PIN Based

Signature based transactions flow through Visa / MasterCard / Discover interchange. PIN transactions flow through debit network interchange rates which are not the same as V/MC/DISC. Network rates are all generally under 1% and carry between a \$.15 - \$.35 per item.

A few things to consider when pricing a merchant:

Type of Business

- Card present, card not present, e-commerce
- Lucrative for other sales offices?

Retention

- Be competitive, leave room to move
- Consider potential rate review requests

Profitability

- Be conscious of price gouging
- Compare merchant monthly sales to expected monthly profit margin (residuals)

Referral Source

- Consider matching pricing if an existing merchant referral
- Likelihood of future merchant referrals?

Industry

- Available interchange programs? Utilities, Level II/III, Large ticket, CPS/QPS/Small Ticket

