

In debit card age, are checks headed for extinction?

Valley merchants pleased with plastic, but fret about fees

By Ken Levy
SPECIAL TO THE IBR

Despite the added costs of accepting electronic transactions, many Boise-area merchants seem satisfied with the apparently increasing trend toward electronic payments over check writing.

A study released by the Federal Reserve Board in early December reported that electronic payment transactions in the U.S. surpassed payments by check for the first time in 2003. Those trends appear to hold true in the Treasure Valley as well.

Mark Hansen, who owns Blue Sky Bagels in downtown Boise with partner Scott Lung, said electronic transactions make up the largest percentage of their non-cash sales. Hansen said electronic payments account for about 25 percent of sales while checks are less than 10 percent.

"A person only needs to look around to realize the increase in electronic payments," he said.

"Five years ago, hardly any fast-food place took credit cards, now almost all do. I haven't paid a clerk for my gas in years. I think checks are on their way out," he said.

Harry Young, who owns Frame Works picture framing shops in Boise and Eagle, said check payments represented 65 percent of his sales five years ago, with credit cards at 30 percent and cash making up the balance.

"Now, checks and credit cards have changed positions," he said, with credit card transactions at 40 percent, debit card transactions at 20 percent and checks at 35 percent. Cash sales remain constant at about 5 percent, he said, because framing is usually a higher-ticket item than gas or convenience-store purchases.

"More than half our daily sales are debit or credit," said Michelle Gregory, who manages the Boise Frame Works store at the Country Square on Overland and Five Mile roads.

"Our younger clients seem more likely to use debit or credit over checks than our older clients," she said.

"Over the last five years, we've seen a



The swipe of the debit card is becoming more common these days.

15 percent a year increase in (electronic transactions)," said Jeff Nee, who owns Brick Oven Bistro, Boise. "We're probably down 60 percent as far as checks go, but people usually have \$5 to \$10 in their pockets."

But "we haven't yet seen a big difference" between check and electronic purchases, said Bill Miller, who runs Ralph's Toys and Hobbies in the Five Mile Plaza. Miller, however, pays for an electronic check-verification service that processes a customer check at the point of sale, verifies customer information and transfers funds directly to Miller's business account. Checks are automatically rejected if insufficient funds or customer information is suspect.

"We don't get bad checks anymore," Miller said.

But Nee said he sees few advantages in accepting electronic vs. check payments.

"Boise is a more honest place than most," he said. "Our bad check percentage runs just under 2 percent. You're actually losing more of your transaction because of credit processing costs."

Merchants agree their first concern is meeting customer needs. Security and convenience rank high on the list as well, while fees are seen as just another cost of doing business.

Meeting customer demand means new businesses "would have to (get) a terminal that accepts PINs (personal identification numbers) and debit-card transactions," said Young.

He recently added debit-card transaction capabilities at his Eagle shop, which opened late last year. He's testing the service before committing to convert to similar capabilities at the Boise store, at Overland and Five Mile roads. That

"But nothing beats cash, and that's by far my preference."

— Jeff Nee



Michelle Gregory, manager of Frame Works in Boise, cuts an archival mat for a customer. Gregory says the store's younger clients are more prone to using debit cards than checks.

shop handles debit cards as credit-card transactions, according to Gregory.

Nee said electronic transactions tend to be very secure because, like most businesses accepting plastic, the Brick Oven works with a direct terminal.

"It's either approved or not approved, right there on the spot," he said. "Once it's approved by our processor, they're liable. We're not."

Nee said he sees a trend moving away from checks, "but there are a lot more safeguards with electronic transactions than with checks."

He uses direct verification — checking other forms of identification — rather

than electronic verification services that add cost to the transaction.

"The convenience and safety of plastic far outweigh that of checks," said Hansen. "I personally like the ability to track debit card payments instead of handling receipts for cash. It's just easier and cleaner."

"The main disadvantages are the cost of processing transactions and the time it takes to run the credit card," he said. "During peak hours, getting two or three customers in a row paying with plastic can really slow things down. One

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Increase in the use of debit cards could mean a phaseout of checks

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major advantage of fewer checks is that we get very few returned checks now. I guess that needs to be weighed into the factors in favor of the fees."

Electronic transactions incur costs Hansen believes are "more expensive than they should be," and most customers don't understand the costs involved. Those fees, he said, run about 20 cents to swipe a credit card, plus a small percentage of the sale.

"With small transactions it's the swipe fee that gets us. There are times when people buy a single bagel with a credit card. A 20-cent charge on a 59-cent transaction is a huge chunk. The swipe fee and the accompanying percentage fee can really add up. However, as a business owner, you have to weigh those costs against the potential loss of business for not providing this convenience."

Nee said he absorbs the additional costs of doing electronic transactions rather than raise prices.

"This is a very price-conscious town, and we absorb everything internally long before we raise our prices. That's usually our last resort. But nothing beats cash, and that's by far my preference," he

said. Check verification and other electronic transaction processing fees vary depending on the business, the average sale prices and quantity of sales, and whether the card is taken in person, over the phone or the Internet. The latter two can incur higher prices, and prices go up when a government-issued credit card is used due to security concerns, according to Young.

His merchant account, which includes accepting VISA, MasterCard and Discover Card, charges 35 cents per transaction plus a percent of each sale. Young said typical per-sale charges could run anywhere from 1.5 to 4 percent.

But no percentage fees come out for processing debit transactions. In Young's case, a flat 70 cents is charged for each debit it processed.

"For us, it makes sense to prefer debit transactions," said Young, "but for service stations and convenience stores making smaller sales — say \$10 — they'd be better off with charge card transactions."

Miller said he minimizes the impact of debit card fees by requiring a \$10 minimum sale to use them.

Nee said the Bistro doesn't do debit cards but runs them as

credit "because we're on the cusp of making it worthwhile" to process them as debits. "Our percentage is lower than the straight debit cost so it makes sense for us to take it as credit. The break-even point is right around \$15."

"Hopefully competition will help drive down some of the

costs and somebody will find a way to speed up the processing time," said Hansen.

But Young said there are no guarantees that fees charged by merchant service providers would go down.

"That's not in their interest to bring it down," he said. Since banks and providers don't

charge consumer fees for handling debit-card transactions, "they'll probably raise the fees for that kind of transaction. They have the store owner over a barrel, because the last thing we want to do is tell the customer we won't accept that (card) and let them go somewhere else."

Hansen



Lung

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Choose electronic merchant account vendor wisely

Hidden charges could make the service a costly expense

By Ken Levy
SPECIAL TO THE IBR

Setting up the ability to process electronic transactions is easier than you may think.

Merchants can establish credit- and debit-card capabilities through any bank or credit union, or through private companies represented by larger financial institutions.

Terminals can be purchased or leased, and the company helps with setup. Check verification and other electronic transaction processing fees

vary depending on the business, the average sale prices and quantity of sales, and whether the card is taken in person, over the phone or the Internet, and other factors.

Fees could become negotiable if there are changes in the sales criteria. The sales amounts collected are automatically deposited in the merchant's account, less the fees.

Other financial services companies bill themselves as one-size-fits-all merchant account providers who also handle e-commerce and Internet transactions.

Luana Yokum, Idaho senior account executive for Atlanta, Ga.-based RBS Lynk, said her firm is a single-source provider of electronic payment processing services including credit, debit, customer loyalty cards, checks and more.

"We process all forms of electronic payment transactions from merchant point-of-sale terminals, websites and ATM machines," she said, from small business to regional chain locations.

For small business, the configurations for getting set up to accept electronic payments are as varied as business itself, with different kinds of terminals (including the old-fashioned "knuckle-buster" manual slide machines) available. But this kind of service provider should handle everything from the point of sale to the cash settlement of the transaction.

Harry Young, who owns Frame Works frame shops in Boise and Eagle, cautioned against choosing a merchant account vendor based solely on percentage fees.

Some processors charge

"lots of hidden fees and, when you add them up, it comes to a higher percentage," he said, noting that the best way to shop is to consider the bottom-line charges.

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— Harry Young

"You have to make sure these (providers) give you the money," said Young. "If they make a lot of mistakes, you

don't come out ahead. It's like getting a bad check."

But competition among providers is stiff, according to Mark Hansen, who owns Blue Sky Bagels in downtown Boise with partner Scott Lung.

"We are dealing with our second merchant account and are always comparing prices," said Hansen. "The process is quite easy and we usually get two or three solicitations from processing companies a month."

Because of the variables in payment processing services, whether a business runs an online shop along with a brick-and-mortar presence, and the types of payments accepted, merchants should do their homework when selecting the service that meets both their customers' demands and their budgets.