



DIFFERENTIAL PRICING, **DONE RIGHT**

Explore Compliant Practices: Cash Discounts,
Surcharging, and Dual Pricing

◎ Cash Price



◎ Card Price



Introduction

In a free market, buyers are able to say, "No" when the cost of goods or services goes too high. In recent years, business owners have started saying "No" to the increasing cost of accepting card payments.

In the US Market, most businesses understand that accepting card payments is a necessity. Visa, Mastercard and others have done a fantastic job of promoting their brands and encouraging customers to pay with credit and debit cards. Deciding not to accept these forms of payment is not a reasonable option.

However, there is no denying that the cost of accepting these payments continues to rise in the US market, year after year. This trend has driven a significant percentage of business owners to rethink how they accept payments and who should pay these costs. Rather than paying these costs directly, many business owners have opted to change their pricing strategy in order to pass these costs directly to the customer depending on their choice of payment.

Disclaimer: Compliance with card brand rules, state laws and federal agencies is a complex topic that requires professional advice in a variety of areas. Neither this document or the authors, distributors or local business advocates claim to be legal experts. This pamphlet is a representation of our opinions on these topics and we encourage you to seek appropriate expert advice as needed.

This document is also not meant to be comprehensive, quite the contrary. There are hundreds of pages of rules and laws that impact these programs. We are attempting to provide the most relevant details in this document, but it is not possible to cover everything in a document of this length.

Types of Programs

These programs, typically fall under one of three terms.

#1 - Cash Discounting

#2 - Surcharging

#3 - Dual Pricing

In each of these programs, a differential price is established, meaning that a customer purchasing the same product or service will pay a slightly different price depending on which form of payment they choose. The result, is that the cost of processing has been partly or even completely passed on directly to the customer making the purchase.

With the popularity of these programs is growing rapidly, the payment card brands like Visa and Mastercard, have taken action to regulate these programs. These changes are partly driven by a dislike of programs designed to make consumers aware of the cost of processing, but also driven by a desire to improve the customer experience.

As Visa in particular is taking enforcement of their rules more seriously, it is time for small business owners to educate themselves on these programs and the rules that regulate them. If you are already offering some type of differential pricing, this pamphlet will help you evaluate if you are in compliance with Visa rules.

If you are not offering one of these programs and still paying the cost of processing card payments, it is time to consider these options as a way to save money and add revenue to your business. With compliance rules clearly in place, you can now implement one of these programs in a way that protects the customer experience and keeps you out of trouble with the card brands.



Defining Program Types

While you may have a loose understanding of what Cash Discounting, Surcharging and Dual Pricing mean, Visa rules define these programs very specifically and implementing a version of the program that does not fall within Visa guidelines will likely generate a fine for your business.

Visa now has an army of "mystery shoppers" who shop at local businesses, in an effort to audit their pricing strategies and report back to Visa. When evidence is shown that a business is not in compliance with Visa rules, a fine is levied.

Here are the types of programs that exist, you can ensure you are choosing the right program for your business and implementing them in the right way.

Cash Discount - *A cash discount exists when you offer a discount from the listed / regular price when the client checks out. For instance, your shelf or menu might list a single price of \$100. When the customer checks out, they could pay \$96 if they use cash. This would be a cash discount.*

Dual Pricing - *Think of a fuel station that lists both a cash price and a card price. There is not one regular price, there are two different prices listed, depending on which form of payment is used.*

Surcharge - *Surcharging involves adding a line item fee to the receipt at the counter and this program is heavily regulated by Visa, so be careful. You may not add a surcharge greater than 3% and you may only add the surcharge to credit card transactions, NOT debit or prepaid card transactions, even if those transactions are processed as credit.*

Compliance Tip

In order to add a line item to the receipt, you must use a compliant surcharging platform that is able to look up each card prior to authorization to determine if it is a credit card or a debit card and then add the fee only to credit card transactions.

Choosing the Right Programs

Now that we understand the definition of each program, let's discuss when each program would make the most sense for a particular business.

Cash Discounting

This program could be a great fit if your business qualifies in two important areas.

1. You can implement a price increase across all items quickly and easily.
2. You can then provide a discount at the counter.

Compliance Tip: Adding a fee is NOT a cash discount and Visa does not consider these programs to be compliant. If you are adding a Non-Cash Adjustment or Service fee to the receipt on card transactions, Visa considers this a surcharge program and it must abide by the surcharge rules above, meaning it is less than 3% and charged only on credit card transactions (not debit transactions).

Dual Pricing

This is the program used by most businesses today, because it allows you to establish a card price and a cash price, meaning you can effectively eliminate the cost of both credit and debit acceptance fees. It can be challenging for businesses with a large number of sku's or a menu that changes frequently, but work with your payment processor to explore available solutions.

Compliance Tip: *Dual Pricing literally means you have two different prices for each item. As you think about the various ways you communicate your price to customers, start thinking in terms of how you will communicate your "prices" to customers in a clear way from the shopping experience to the final check out.*

Surcharging

This approach is best used in businesses with higher average tickets. For example, if you own an HVAC company with an average transaction size of \$3,500, your clients may want a "no fee" option other than cash. You could facilitate this by using Dual Pricing or Cash Discounting and offering ACH at the lower price, but the more common option is surcharging where the client can use their debit card at no cost to them.

Compliance Tip: *Adding a fee to the transaction based on method of payment IS A SURCHARGE. There is no way around this from Visa's perspective. If you are adding a fee at checkout, you are implementing a surcharge according to Visa's rules. If this fee is charged on debit and credit, or if this fee is greater than 3%, you are not in compliance and run the risk of being fined by Visa.*

Important Information

Visa/Mastercard, as well as certain states, still regulate how these programs are implemented, and they will fine you if you are not compliant. Implementing these programs on your own is **NOT ADVISED**.

- For violations of the card brand rules, businesses can be fined \$1,000 per occurrence, increasing to \$5,000, \$10,000, and \$25,000 per occurrence for repeated violations.
- There is only ONE truly compliant way to implement each of these programs. We will show you in the next couple of pages.

For the sake of your merchant account and your wallet, be sure you're on the right side of state and federal laws as well as card brand regulations before implementing such a program.



Programs for Compliant Implementation

We work through a network of local partners that provide expertise, programs and services designed to help you implement these programs in your business. Each of our local partners has informed us of their intention to offer programs with the following benefits:

Fully Compliant Program

- State and federal law •
- Card brand regulations •
- Data Security Standard •

Implement At No Cost

- No setup fees •
- Free equipment •
- Free customer explanations •

Keep Your Money

- No more credit card fees •
- Set it and forget it. •
- Next day funding available •

We do not assume responsibility, legal or otherwise, for products and / or services offered by local individuals and companies who have agreed to follow up with SMBs. Our goal is to inform local SMBs and make introductions to local individuals who may have expertise in these matters. Any additional dealings between merchants and these individuals or companies is outside the scope of our control or responsibility.

Free Equipment

- Automatically give your customers a choice at checkout. When customers choose cash, they pay a slightly lower price. When they prefer to pay with a card, the extra money is automatically used to cover the cost of accepting their card.
- Instead of raising your prices across the board every time the card fees go up, you now offer your customers a discount!
- You never have to worry about card fees again!
- This solution increases cash flow immediately; compliance is handled for you; and everything is automated for your convenience.
- You may also qualify for a fully functional point-of-sale system to help you operate faster and more efficiently.



We wish you the
BEST
of success!

Armed with your new knowledge,
it's time to take action.