

## Interview with Bret Ridgeway and Jud Smith

**Bret:** Good morning, this is Bret Ridgeway with Speaker Fulfillment Services and I'm on the phone today with Jud Smith of PowerPay.biz, Jud, good morning!

**Jud:** Good morning Bret. How are you this fine day?

**Bret:** Outstanding and yourself?

**Jud:** Very well, thanks. It's not raining. I'm always happy when it's sunny out.

**Bret:** That's a good thing. Jud, as you know, Speaker Fulfillment Services works with a lot of information marketers, putting together their physical products. We have new people come in to this business all the time and one of the frequent things we're, asked about are credit cards, merchant accounts, etc.

Since I know you're the go-to man in the information market industry, I appreciate you sharing some time with us this morning to give people an overview on how this whole process works so they'll make the right steps as they get going in the information marketing industry.

**Jud:** Absolutely. I'm very happy to be here to answer any questions I can and hopefully, point people in the right direction when it comes time for them to get involved with the online world and start taking payments.

**Bret:** I appreciate that very much Jud. With no further ado, I'd like to jump in to the Q&A session with you and get the benefit of your expertise.

**Jud:** Absolutely. Let's roll.

**Bret:** The first thing that we're typically asked when people call in is, why do I even need to accept credit cards if I'm selling information products?

**Jud:** Yes. That's a very legitimate question and a very easy question to answer. Accepting Visa and MasterCard, or credit cards in general, typically in a retail environment, will increase your sales anywhere from 15 to 40%. Taking them online Bret, having that component, to be able to take payments 24 hours a day, regardless of whether you're manning the store, if you will or not, is invaluable.

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In some cases, it can increase people's sales a thousand percent, if they never took sales before.

Most everybody today has a credit card and when they're going to buy something; it's usually an impulsive type thing if they're going to buy a product or something off the Internet. Not having the ability to take credit cards hampers the ability to do business you lose sales that's the bottom line. Taking credit cards will only increase the amount of money that you'll be able to buy one on a monthly basis.

**Bret:** Which cards do you specifically recommend that people accept if they're an information marketer, Jud?

**Jud:** Visa, MasterCard obviously is the large thing. You're looking at over 90% of all transactions will typically be done with the Visa, MasterCard. American Express and Discover make up the majority of the other cards, if you will, that are, used online. American Express is used quite a bit more than Discover.

Discover is on the low-end of the totem pole when it comes to usage, if you will, but Visa, MasterCard primarily 90% plus, American Express, at least 5 to 7%. With PowerPay, when we set up a merchant, they get set up for a Visa and MasterCard acceptance. Discover and American Express is their own entities. I always recommend that a merchant take them.

The reason I do is, especially if you're selling a high-priced item, the thing that we found is that—with the high-priced stuff, people like to pull out the American Express cards for their higher priced items a lot. It's going to be that one time Bret that you don't accept a particular card like American Express or Discover that somebody is going to want to buy that large ticket item.

It's a Murphy's Law type thing where, if you don't accept it, somebody is going to want to use it.

**Bret:** What about the whole issue of debit cards, Jud. Are you set up to help people when they accept debit cards also?

**Jud:** Yes. What most people don't realize is that a debit card, as long as it has a Visa, MasterCard symbol on it can be, used as a credit card. In a retail environment, when people want to use a pin pad enabled terminal, if you will, to accept pin payments. Again, as long as they have a Visa, MasterCard symbol, they can do a debit

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right at the point of purchase where they actually input their four-digit number.

There are some capabilities where you can do that functionality on the Internet. It's not putting in the pin number hasn't taken off on the Internet. The cards that typically run are just the typical credit card and AVS is, used instead of pin number, which address verification, AVS for short, is confirming the card number, the expiration date.

More importantly, it's confirming the billing address on the card as well as it will typically ask you for the three or four-digit number on the back or front of the card depending on what type of card it is, which sort of circumvents the need for the pin number to be entered, if you will.

In a retail environment, you can take a debit card as long as it has the Visa, MasterCard symbol and run it through. If you've got a pin pad, you can have them put in the four-digit number. When you're actually processing online, you use a merchant account with an Internet gateway, which an Internet gateway is a virtual credit card terminal.

The virtual credit card terminal world, if you will there hasn't been a rush to accept actual debit cards and pushing pin numbers through this so they are run as credits. I know that was a long-winded answer, but people have, a lot of questions about debit. I just kind want to throw that in with the Visa, MasterCard symbol.

**Bret:** Sure, I understand where you're coming from. As a user, I find it far easier to use the card as a credit card, because I don't have to remember the pin number.

**Jud:** Absolutely.

**Bret:** You talked briefly there about gateways. Let's define for people if we could Jud, the whole relationship of a merchant account provider such as PowerPay.biz and Authorize.net or a Plug 'n Pay, somebody of that type and the actual Visa and MasterCard companies themselves. How does that all fit altogether?

**Jud:** Yes, what I do is when people ask me that. Typically, we'll make two separate groups. I'll have a group of three, the group of three is your merchant account and it's the gateway in your shopping cart. You need those three components to do business on the

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Internet; the merchant account, the gateway and in this case, Authorize.net or Plug 'N Pay.

There are a lot of gateways out there, but we use Authorize.net and Plug 'N Pay as much as possible. We find that they're the most robust out there. So you got the three components: the merchant account, the gateway and the shopping cart, and then on the other side, you have another group what I would call in this case would be the credit card issuers - the ones who issue the credit cards out to the customers, the cardholders.

The three components, when a customer comes to a website and uses a Visa card what happens is those three components work together; merchant account, the gateway, and the shopping cart, to authorize and capture the money from the issuing credit card's bank bin.

Those funds are, moved through the ACH system over to the merchant's checking account, within two days. So a lot of people actually think that Visa does the facilitation of the funds, when in all actuality, they're a different component. The processors, what we do at PowerPay.biz, we're the ones that set the merchants up on the networks, the routing of the funds and making sure that it goes to the correct checking accounts.

Visa, as an issuer doesn't get involved, in the processing end. They have certain costs and such that are passed to us, but in this case, I try to separate the components as much as possible, group the three with one and then sort have the Visa component over on the other side.

**Bret:** If I heard you correctly, if I'm accepting credit cards, I should expect to get money typically in a couple of days after an order has been processed?

**Jud:** Yes, but that can fluctuate, Bret. The reason I say that is that can fluctuate between processors and the level of risk that is associated with the transaction per se. There are high-risk banks out there that it can be 7 to 10 days before you receive payments. Your average minimum is two days. You can stretch out to three, like for us, with PowerPay.biz, unless they're a real risky account, we're on a two-day schedule.

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We found that for the merchants, the process with us, the two days really is the thing that works best for them. Having money tied up for 10 days before you get it that can be a pain, but again, it does come down to the transaction size, the risk associated with the account, is it actual product? Is it a service that's being sold? Is it a future service that type of thing?

Typically its two days if they're a good merchant with great credit, and they own real estate, you're looking at a couple of days even if it's a more risky product. Again, the underwriting process is where that gets ironed out.

**Bret:** Let me ask you this, Jud. If I'm a new prospective company come in to you for a merchant account, what kind of questions are you going to ask me to determine how risky I am etc?

**Jud:** Great, great question. I can usually bundle it down to just a few questions. One is personal credit. What does your personal credit look like? If it's 400 for a credit score, obviously that's not good. That does not rule you out from getting a merchant account, so there are a few things that make up components of the underwriting decision.

The first being credit – in credit history, do they pay their bills on time?

The second, do they own real estate? In the processing industry, owning real estate and having decent credit says to us that this merchant is a stable merchant. They're not going anywhere; they're not some fly-by-night operation. The other part of the equation is the product or service being sold and the price points. There's the difference between selling a physical product that actually ends up at somebody's door that you're getting a signature on, versus selling a future service to do something for somebody.

If you've got a track record of providing the same service for the last fifteen years, you're definitely going to get a little bit...I won't say easier questioning but a little bit more of an okay, this guy's been doing this for 15 years. He is stable versus the guy who, is coming to us for the first time that wants to provide future services and is just getting into the business.

No matter what industry it is, if he doesn't have a track record that again makes the risk factor go up. Another big component that most people don't even realize, but a big component of the underwriting process is your refund warranty policy. What type of

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refund policy are you giving? A lot of people think to themselves, I want to give a year warranty or year refunds.

In most cases people would think, that would make my customer want to even give, me the chance even more, because I'm giving such, long return policy that must be, looked upon as a great thing. For some products and services that can be, but my specialty is, where I work with marketers and explain to them that the longer of a return/refund policy that they have the greater the exposure that they have for potential charge backs.

What I mean by that is, let's say you have a membership site and you charge (x) amount of dollars per month. There are a lot of processors out there who don't get in to the finer details of the return policy, and that can come back to bite, not only the merchant but the processor as well.

What I mean by that is, if you have a membership site, you have stated on your terms and policy that you give refunds up to six months, then that's what you're giving people, but clearly, you have a month-to-month subscription. What that means is six months from now somebody could charge back the last six months of recurring billing that you've charged them for and say that product wasn't as described and according to your return policy, I can actually ask for this money back.

Let's say it's a \$30 a month product and you got a \$180 worth of billing you were banged for from this customer saying, it wasn't as described versus the other end of the spectrum. What I would do in this case as marketers come to me and come through our underwriting department; we explain to them that the shorter period is actually works in their better interest.

The reason I say that is if you have a thousand customers and 10% of them decide six months from now to charge back, you're looking at quite an exposure. If you had limited that return policy to 30-days and called it you've got 30-days to contest this \$30 charge, they would only be able to go back one month versus the ability for a large amount of merchants.

Let's say something happened on the Internet, there was postings that went out about this membership site that wasn't quite what it was supposed to be or what not and in any event, you have a rumor or something that starts. A lot of people who join this membership site, you know they realized they can charge this money back.

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You can limit your exposure by limiting the amount of time that you have in your refund policy. I know that was a long winded answer, but I just thought it was important to throw that out there, because it's not a well defined thought process with a lot of processors out there when it comes to the return policy.

They just want to see that the customer has one, but what they're not drilling down to is, the exposure that this merchant can have for the next six months or a year. In some cases, it does pay to have a longer return refund policy, but in other cases, it's not. It can vary widely and that's the gist I'm trying to say, Bret.

**Bret:** You're using the term charge back frequently here. What I would like you to do please Jud is define that term for our listeners and then answer the question for me. What is the statute of limitation on charge backs? Can people definitely charge back, is that dictated, by you primarily or not? Then also, related to charge backs, what can people do to help protect themselves against charge backs?

**Jud:** That's a multi-pronged question I may start going off in various ways so...feel free yes, feel free to bring me back around so we can hit off three of those if I don't get them. The first is a charge back, Bret. It is a customer disputing a charge somehow.

For some reason they're saying there's something I don't agree with, with this transaction. It could be they bought a computer part online, and the part was defective. The merchant is refusing to give a refund. The customer at that point may say you know what I've got Visa protection.

I can call Visa and indicate to them that this product was broken when I got it and this merchant is refusing to refund this or issue a call tag to pick up the product and give me a new one. They can issue a charge back, what the charge back is it is just a customer saying, I don't agree with this transaction. There are a lot of different charge back, reason codes that's what they're called in our industry.

They can range from product not received, meaning you were billed for a computer product and it never arrived at your location. You could charge back something like that or it could range up to product not as described, meaning you thought you were buying some custom purple-lighted UFO type computer with cool graphics.

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There's a company out there called Alien computers and they sell, this juiced up computers, and you could have thought you're getting one of those, and they send you some inferior products. That could be a product not as described and so obviously, that could be a large ticket item, a couple of thousands of dollars.

A charge back would be the customer saying, hey, this wasn't, you know, what was described or it was damaged, I never got it. There's a range of different reason codes that comes back for charge backs. The next part of that question, I believe was you were asking about statute of limitations. In charge backs, it's funny, Bret.

Charge backs can range from six months up to a year. After six months, you're not going to get as many, but again it relates directly to the product code, in recent code of the charge back. Meaning, if a coaching client was, billed for a years worth of services up front, let's call it \$12,000 or a thousand dollars a month, and a year later that customer said that was not as described.

I did not get what I was anticipating. At that point, they could attempt to do a charge back, at that point the merchant would have to prove that they did indeed give them the coaching and that the agreed upon return policy was (x) amount of days. I've seen coaching clients as well, give a year refund on a yearlong package, and that can be a bad thing if it comes back and somebody does charge that back.

That being said, most charge backs are typically six months is about what Visa will go to. In some cases, they will go up to a year. The interesting thing, Bret to realize, this is the meaty stuff here is that U.S. based merchant accounts, if you're a U.S. merchant, with a U.S. merchant account and you are taking credit cards from around the world.

Most of your business will be here in the U.S., but you'll get charges from around the world buying your products and such...charge back internationally can be up to a year and a half that somebody can go back and...

**Bret:** Holy cow!

**Jud:** Yes and most people don't realize how long that can go, but there are different Visa regions throughout the world. We're in the North American region. There's Visa international, I mean there are

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different regions all over the world, in Europe and such so they play by a little bit of different rules.

If it's an international card, somebody could have potentially up to a year and a half to dispute it. Now that may range across - you know Visa actually sets the limits internally, it could be Bret, and it was a product. They may say, no, you had 6 months and we're going to deny that charge back. It's possible, a merchant may win a charge back, if it's in an international card, but they are not the ones.

It is because the charge back laws and rules if you are - are always favored in the customers defense if you will, Visa is an issuer, but their customers are also their bread and butter. I guess a good way to say it Bret, is that Visa and MasterCard are there to protect their customers. It's my job as the processor to protect the merchant and many people don't realize that.

They think we're one and the same with the Visa sometimes they don't understand that we're actually there to protect the merchant and Visa's actually there to protect the cardholders. We try educate on you know charge back thresholds as far as what can happen when you have too many charge backs, with a certain amount time because that is always a possibility as well.

If you've got a return policy that you've put a three months return policy on and you're selling an inferior product out there, it is probably a good likelihood that you're going to get three months of charge backs at the end of that time frame. That's why again, limiting that down to 30-days or what not will protect everybody who is involved in the project.

Again I know I went off in a lot of different directions there Bret, but the charge backs are like this hug part of the business. From a merchant's side or a customer's side there are so many different you know things that apply to each side. The main lesson there being, you know protection comes from listening to your processor and issuing refunds immediately.

If a customer calls in for any reason at all and they bought something from you, I guess you've got to use your discretion. You know if a customer calls in and they're 5 days past the return policy, do you want to deny their refund and have them issue a charge back where you're going to get charged for it anyways, or you just want to say, you know what, I'm going to give this charge back.

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I'm going to give these refunds, because there are 10,000 other customers out there that want this product or this service that won't charge it back.

**Bret:** Right.

**Jud:** In a long roundabout way, it doesn't do anybody any good to deny a refund for one customer when there are 10,000 people lining up behind it that want to buy the products. My best advice to anybody in informational products is, even if it is outside the realm and I don't mean to say way outside the realm of refund your policy, but it's definitely in your best interest to be easy when it comes to the refund policy.

Meaning post it on your site, but be realistic. If somebody calls in and says, they want a refund, if you don't give them a refund they're going to charge it back anyway. It's two and a half dozen of another, when you get hit with a charge back there's a thing in our industry called charge back thresholds. What that is, is Visa and MasterCard established their, own charge back thresholds.

That is typically around one percent of your volume. If you're giving too many charge backs then they will actually flag your account and give us a call, notification and say this merchant A, B, C merchant, they crossed the threshold last month of charge backs, we need to find out what's going on.

We would most likely already know in that case before we get notified from Visa anyways, we have internal controls here that tracks, that hit the stuff, but and we would proactively contact the merchant and say, we notice your reason codes for charge backs are products aren't as described. Let's look, your sales page, what do you sell? How are you describing it that type of thing.

We would try to work with them to get their charge back thresholds back under control. Visa will give us a couple of chances to work with the merchant before they say these guys have to be shut off, but it rarely gets to that point. Most marketers understand that when they get a call from my risk department or from myself whatever they're doing has got to be changed.

Accepting credit cards Bret, it is such an important thing to a marketer online. It's not a good idea to ignore your credit card processor's direction or advice, because they're there, in most cases, I mean there is a lot of processors out there who don't care.

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We here at PowerPay a little self-promotion here that's our specialty.

We want to protect the marketers as much as possible out there, enable them to put out great products and put some great knowledge into the industry, but we want to protect them. We certainly want them to give their customers as much value for their dollars they can get. We also want to make sure that we protect them as well and let them know how to watch out for charge backs and you know just some of the simple things.

Give a refund if somebody calls in and is persistent about it even if it's past the return policy time period, it's worth it in your interest because all it takes is one bad customer out there on the Internet to go post on, and I don't need to say them here.

Like any one of the forums that most of the marketers, including myself, peruse on a daily basis. All it takes is for one bad apple to start putting out bad comments this marketer didn't give me a refund. As a general rule of thumb, all my marketers typically just give refunds when it's due because it is good karma. Give the refund then you get 10 sales behind it.

**Bret:** What are your thoughts on the pros and cons of issuing refunds via check versus credit cards?

**Jud:** I would never do it via check and I will tell you why Bret. In my industry what happens is, there are thieves, usually international that will buy products and services from your website with stolen cards. What they do is they're looking to buy something from you and as a matter of fact, a very well known - seminar promoter last year had a situation that I know where a card was run through for attendance to the events and within a day the so-called customer was calling and requesting a check refund.

The reason behind that refund was the crook had used this stolen credit card to purchase a ticket on this website for an event that was coming up in the next few weeks, they wanted a check refund and the reason they wanted the check refund is, because they were using a stolen credit card. They knew they could get money from the merchant by having them issue a check rather than a refund to the credit card, because the thief is never going to get the refund to the credit card.

Their little ploy is they want you to send them a check for a refund. I always advice never to give a check refund if you would run a sale

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for somebody on a credit card, you need to give the refund through the credit card that's the best way to make sure that there's no funky business going on.

**Bret:** Great insight Jud. The third prong of that question I asked already about charge backs was what are the keys to the merchants protecting themselves against charge backs?

**Jud:** I got into it a little bit, but again it goes back to that return policy. I can't stress that enough. Return policy and having a great product, those are two of the biggest things and having great customer service follow up. If you've got those things, that's the protection you need against charge backs.

Charge backs become for a few very specific reasons, the product was not as described or the product wasn't received those are like the two biggest ones right there. If they can think about those, two reason codes, product not as received and product not as described.

If they can make sure that all of their products get shipped by a reputable company such as yourself, Bret Speaker Fulfillment Services that is the number one thing. Having great customer service follow up and making sure that, you know what's being, sent to the customer is exactly what was described in the webpage.

There's nothing more dissatisfying for a customer of when they order some snazzy gadget or product online and they get it and let's say somebody orders a full coaching course on bee keeping. When they get it, it is 49 pages stapled together on photocopy paper versus somebody sending a quality product like something as your place would offer Bret.

A nice binder, three-ring binder with all nice materials, colored paper; a nice presentation with a solid thud factor when it hits the steps at the customer's location and it's, a thud, they know their product has gotten there and they feel like they got their value.

I think that's the biggest thing is that, marketers today I think are way more advanced than they were even three or four years ago as far as presentation. I notice that when products go out now for most of the larger more established marketers they're well, done. There's binders, there's colors, there's representation put into it. Back in the day when it was a little bit wilder, when people would buy stuff, they would get the 49 page photocopied report stapled together.

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**Bret:** Yes, I have some of those.

**Jud:** Yes and that's exactly it that's how you protect yourself from charge back, don't put out bogus stuff. Make sure you've got a nice presentation and people want to see that. It's like going to a restaurant, 90% of the bill is the presentation of the meal itself and it will taste better as well when you order. When you go to a nice restaurant, it looks nice, the presentation and they have little garnishes on there.

The presentation is 90% of the taste as well it's just a psychological thing. I firmly believe that that's one of the best ways to protect yourself from charge backs is to put out great products.

**Bret:** Can we define another new basic term for the folks, Jud?

**Jud:** Sure.

**Bret:** When we talk about discount rate, what are we talking about?

**Jud:** Your discount rate is – either the discount rate in a transaction fee and those are - any processor has those. Your discount rate is a percentage rate say 2.5% of a particular charge. If you run a \$100 credit card charge, your discount rate 2.5% and again I'm just throwing that number out, because it's a nice round number then, you've got \$2.50 discount fee.

Then typically, you've got a transaction fee on there. You know, it can range anywhere from .20¢ to 40¢, so you've always got your discount fee and a transaction fee. The notes on any transactions, any volume that you run now on a monthly basis, you've got a couple of different constants and again most people don't realize this but you've got a statement fee each month, which is the PowerPay with us, its \$10.

Then you have a gateway fee, which is your Authorize.net virtual terminal and that's a \$20 fee. You've got a \$10 statement fee and a \$20 dollar gateway fee, so it's \$30 dollars a month. Most merchants don't realize that it costs money to have merchant accounts online whether they're processing or not. Most processors and we have it as well, we're probably in the lower end of where they are, but there's another thing that is called a monthly minimum.

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A monthly minimum with us is a \$25 monthly minimum, meaning if you don't bill \$25 worth of charges then the difference is made up, meaning if your charge is – if you only made \$20 worth of fees that were payable to us last month from your processing, you'd get charged an extra \$5 just to round that up. Most companies will have anywhere from a \$25 to \$75, \$100 monthly minimum, depending on the type of merchant you are that you may get hit with.

Once you start processing, volume you're running a couple of \$100 a month or what not. You're not going to get hit with that \$25 monthly fee anymore, the monthly minimum. As I said, it costs money to leave an account online whether or not they're processing or not. Other than that, your only other fee that you'll get with most places, not with us, is a lot of companies out there have an application fee or a gateway fee, like a set-up fee.

Where we are, one of Authorize.net's largest resellers of that gateway, there's no set-up fee for us, for any of our customers, anybody that comes to me directly, there's no set up fees for the merchant account or for the gateway. By going out to the Internet, if you do some searching, Authorize.net gateways can range anywhere from \$79 to \$299 for a set-up.

It's quite a discount by coming direct with PowerPay, as well as, we're also an actual processor registered Visa and MasterCard processor whereas a lot of companies out on the Internet today are actually third party resellers of products like ours.

Bret, I was talking about today in the environment online, it's competitive with third-party processors out there that resell services like ours, polluting the Internet with, offers of free equipment and all of these outrageous claims. A lot of tactics that aren't something that a processor like us would do, many of these third-party processors have to survive on application and set-up fees.

They may charge one amount for the application and gateway set-up, but most of the time it's a \$79 to \$99 set-up for each of them. In some cases, you're looking at \$299 set-up, but it all depends on who you find on the web to go to, but that's one of the things we don't do is we do not have - where we are the actual processor, there's no application or set-up fee that is associated with coming on line with us.

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That can be a substantial amount out of your pocket, a couple of hundred bucks just to get set-up by going with some of those third-party processors.

**Bret:** We have to wise up if we're just getting started in the information marketing business.

**Jud:** Exactly. There are lot of processors out there who will charge a lot of different things; you know one of the other things. I think I maybe just started to touch on we're talking about some of the monthly fees was - there's also another fee that's associated with processors called an annual fee. We have, in our industry \$29, I don't think I've seen a lower one out there in the industry typically they are \$59 to \$99 for annual fee.

Some processors will actually bill you that annual fee three months or 90-days into your relationship with them, which is interesting. What they're trying to do is they're trying to get as much money out of you as they can if you're a start-up merchant, they have the expectation that you may fail so they try to get as much money from you as possible.

You come online with us, we charge you the following year for your annual fee. We don't do the 30 or 90-day later bill you for your annual fee. There are a lot of processors out there that, I don't want to say fly by night, but there's definitely I feel a lot of bait and switch activity going on out in the Internet where processors will quote rates that are actually below our cost.

What they do, Bret and this is exposing this, I guess, I mean it's well known in our industry, but there are processors out there who will quote rates that are lower than what we can even process them for. What they do, Bret, this is important for people to realize if they're listening to this and they have an existing merchant account.

Processors will throw rates out that's like we'll process your e-commerce transactions for 2% or 1.95% when in all actuality that's below cost. We, as the processors, couldn't do that, we would loss money on it. What they do is they will, in our industry, there's a mechanism or what not - there's a thing called interchange brand in our industry in its rates that are, set by Visa MasterCard to the processors.

We, as the processors, mark it up a bit and sell it to the merchants obviously. What we do is we include interchange pricing when we

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give a quote to a merchant, let's say it's 2.5%, which includes interchange pricing. What some unscrupulous processors will do out there or third party processors is they will quote a ridiculous rate like 1.95% and then what they do Bret is they will actually charge them interchange rates after that.

Before they know it, they're paying 4% or 4.5% on their effective rate, if you will. When the customer brings attention to the fact that hey you said you're going to bill me at, you know 1.95%, their responses well we are, over cost. We're billing you at 1.95% over cost, that's real important. An ethical processor, when they give you a rate quote, Bret they include all interchange costs associated with the processing. It's included in that rate.

When I give a rate of 2.5% that's the effective rate, including interchange and that's a real bait and switch problem in our industry that third party processors do out there. That's how they will rope people in, furthermore what they do and I know I'm giving little tidbits here this is good. I'm excited about this.

A lot of processors out there will put you into a three-year contract and furthermore, indicate to you leave them within the three years they will charge you \$250, which is standard in the industry. Lately the twist though has been that they will charge you missed profits. It isn't just a termination fee anymore if you leave before three years they do projected billings.

Let's say you're running a \$100,000 a month, what they will do is they will calculate the amount of money that they're losing from you leaving and they will bill you for three years out. Again, it's amazing and the ones that do this are the ones that already misrepresented the rate that they were going to get charge to the customers anyway.

**Bret:** I take it that's hidden in the fine print somewhere.

**Jud:** Yes and it takes a sophisticated merchant to understand because in our industry Bret, the merchant account statements, I find that we have the easiest to read statement out there. It clearly says how many transactions you had, what your effective rate was, etc. With a lot of processors out there who play the games, if you will, the merchant account processing statement is the place that they play these games.

They will do funky things like billing for non-qualified transactions from the month before. They will do the double hit with the

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interchange and the 1.95% rate they were going to give you. There are little things that they will throw in there just to maximize the amount of money that they'll make on a monthly basis. I've even seen processors adding convenience fees and literally you can't figure out what it is and then you'll sometimes get customer service people fees place and say, what's the customer service fee, what's the statement fee? That's for the statement this is the customer service fee.

If there's any way, they can get another \$10 or \$15 out of a merchant that's how they'll do it. In the merchant account statement, you know they will clearly print on there, some of these processors that are playing the games, they will clearly print on one page, the 1.95%, but on another page of the statement, you'll see that they deducted, (x) amount in fees ,but there's no rates next to it, there's nothing.

Another thing, that's funny, is sometimes you'll see billings on credit card statements, merchant account statements that don't actually match the withdrawals from the checking account statements for the billing. Meaning even though the merchant account statements said that they were billed, (x) for this, (x) for this, they'll actually find that there are other fees often deducted out of there that wouldn't be listed on the merchant account statement.

That's a round about overview; I guess there's a pitfall out there that to watch out for, Bret.

**Bret:** The bottom line is shop carefully; maybe we should come up Jud with 10 questions you should ask any merchant account provider you're considering doing business with.

**Jud:** Yes, absolutely, I bet from this call alone, you could probably get a bunch of them. One of the biggest things to start with is the billing, is interchange included in your discount rate that you're, you know letting me know? What is your cancellation policy, your fees, your or gateway fees? There are a lot of different questions that could be, put out there that would be useful for anyone.

Again, even getting the answers that you need from these questions, it still comes down to most processors by nature just do not understand Internet marketers and that's why a lot of marketers over the years have had use third-party payment processing type arrangements to run all of their volume that they need on the Internet.

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Most real merchant account processing companies they have fear of the unknown, I guess that's the best way to say it. Fear of the unknown— for instance, XYZ marketer comes online with ABC merchant account company and this merchant runs a \$100,000 in his first week, because he had a new product launch of a new marketing product that he's selling.

Most processors, I don't care who they are would freak out if somebody run a \$100,000 in being an Internet marketer. The first question that the rest of the department is going to ask that marketer at another processor company, is they're going to say, you know how could you do this?

The merchant is going to say, I've been working on this product launch for, two months I've got a hundred affiliates. Affiliates, then you must be a multilevel marketing. No, that's not what I said I said I had affiliates they help promote my products, we don't know what that is, so, we're going to have to hold your money for 6 months and then boom there you go, you got problems with your processor.

One of the other things that we didn't talk about Bret was reserves.

**Bret:** It was still on my list.

**Jud:** Yes, I figured it was, well I'll roll into it now. Reserves are, when a processor takes on a new merchant account, if they deem the merchant for some reason, the product or the return policies, some things a bit riskier than we would do, there might be a small reserve on that.

What that means is, say, on a daily basis, what would happen is in any volume that was run (X%) would be kept in the reserves fund to make sure that there were no problems with charge backs. Meaning if we anticipated a problem with the merchant, we might not decline them, because we approve a lot of merchants but what we do is we put restrictions on them on what we feel comfortable with.

As time goes on, it will become more and more comfortable with that merchant and charge backs would not be an issue, no ACH rejects, we can talk about expanding the relationship. Reserves are, not applied in every merchant account and it may not even be a high volume merchant account, it would be a low volume merchant account, but if the risk is there and we think this merchant may have a problem, they may get put on a six-month rolling reserve.

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What that means is for six months, 10% of your money gets held and on the seventh month, you get the 1st month back. The reason we use the sixth month rolling reserve plan is, because typical time frames are about six months – excuse me, for charge backs that's in the time frame and why we use the six months that release pattern.

Reserves are relationship builders, they're not a bad thing it could actually help your processor become a bit more comfortable with you. If you never have to use that reserve, that's great, but the reserves are set-up, because there's fear that there maybe a problem. Six months or a year down the road, if there's no problems, you definitely have a good shot on going to your processor and say can we maybe lower the reserves or can it go away, that type of thing.

The other thing that I want to talk about Bret that's important is that I think too often new merchant's who comes into this industry gets fixated on price. I have customers call me all the time, this company offered me 2.09%. This company offered me 1.95% and my first question is you know is that an introductory rate? My second question is typically, you know you get what your pay for, are you sure, you want to go with the company that has, the word XYZ in it?

I don't want to say the company name, but I mean there are a lot of processors out there on the web that promote merchant accounts but they're not even real processors. I mean they're third parties. You're entrusting your money with these people and it's like building a house, Bret. Do you want the cheapest guy doing it or the cheapest guy using the cheapest products or do you want the best guy doing it using the best products, so it will increase in value.

The answer is short and simple, you do pay more for quality processing sometimes, but it's funny, when merchants come to me, you know and I give them a rate and they say, this other company ask me 2.19% and you're offering me 2.5%. My question and the first thing I say to them is you're dealing with a processor who understands Internet marketing, so you're not going to have snafu's.

If you have a big product launch, you're in the middle of a \$100,000 launch and you're not going to get, shut down in the middle of it. That's the type of stuff that you pay for, but to go back a little bit,

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the companies that are out there promoting 2.19% and these outrageous, low discount rates they do not have the expertise when it comes to the Internet marketing.

They're selling on price, they're not selling on service and when you have problems, the service you get from these people, it typically bites you hard when you do have a problem and you do need to get the problem rectified. Another big problem with third party processors is that they do not do their own risk. What I mean by that Bret, is we're a full function processor.

We have all departments on one floor, risk department, underwriting, technical, customer support and inside sales; they're all right here. A lot of processors out there, third party processors do not handle their own risk. What I mean by that is that if there is a problem with a particular merchant, the processor will typically call the third party processor and say we've got a problem with this merchant.

The third party processor will call the merchant and say yes, we have a problem, risk has a problem with this and this, your volume and the problem is the third party processor doesn't have the ability to listen to that merchant, make the decision to release the money and to let them process, because they're a middleman.

They don't make the decisions, which is why it's important to go with the natural processor who has all the functionality and decision making within one department. Again, a lot of third party processors do not even do their own underwriting. They have sent their underwriting; you know the merchant request to somebody like us to underwrite the account.

I guess the big lesson I'm trying to put out there is by coming with a company like us, with PowerPay, you're direct with the processor versus going you know with the third party processor, where they farm out and they're underwriting their risk. A lot of times, you can't even get the same person on the phone so this is some finer I guess little tidbits there from that corner of the world.

**Bret:** Great! I appreciate it very much Jud.

**Jud:** Sure.

**Bret:** If I come to you as a potential new account and let's say, you accept me, but you deem me to be a slightly higher risk than may

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be somebody else. Is that tackle, in the reserve or does that also potentially pay a higher rate or what?

**Jud:** It can be both you can be a little bit higher rate, that's entirely possible. Some merchants would actually rather pay a higher rate than have a reserve believe it or not. In other cases, you have it the other way around. It depends. I can't say it affects both. Rates aren't, raised on a merchant unless we feel that the reserve will eventually be, used and that's not a good feeling to have.

Most of the time; if it's a risk, if we deem it to be a little bit riskier it's on the reserve side that you're going to take the hit, which means you get the money back and you're talking 5, 10 to 20% reserve versus if you're rate gets increase it's maybe by 1% or 2% at the most.

**Bret:** When I come to you as a new information marketer, I'm going to sell my information market via the Internet. What specific classification of merchant account do I want to request?

**Jud:** Definitely an e-commerce. A lot of processors again, if you told me you wanted e-commerce, but then you say I want to have a terminal and I want to be able to do this and do that. It's very possible that you may be set up on the system wrong and not to get too technical but in our industry, we have these things called MCC or sit code.

This identifies the type of business you are on the system and if you're not identified properly within the system, you get a charge back and Visa is able to decide that you were set-up incorrectly. You could actually lose that charge back, because the processor did a bad job setting you up. Again that's an important reason to go with the processor but again definitely requesting that you want an e-commerce account set-up. It's definitely the thing to ask for.

**Bret:** What if I'm speaking at events where I want to sell my product live at events. Is that a different classification?

**Jud:** Again, yes. That will fall into what would be called a blended account, but here's the thing Bret; 98% of your business is going come to the Internet in most cases, and then you're at the shows, it's not a daily show that you're out selling. I still set those up in an e-commerce type fashion, because the majority of the transactions come through in an e-commerce fashion.

**Bret:** Okay. So, I don't have to request a different merchant account for processing at live events?

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**Jud:** Right. If that is the majority though of what you do, if you're just a speaker that you sell your products at the back of the room at every event you want to set up the account more in that sense, more of a moto/retail environment more than e-commerce. I think it's in best interest to sort of get the mood in the e-commerce direction, because that's where the majority of this stuff comes through and you're typically going to be in that an e-commerce environment versus the face to face.

**Bret:** You said M-O-T-O?

**Jud:** Yes, mail order telephone order.

**Bret:** Okay. The bottom line is you should be on the proper classification for where the majority of your business lies.

**Jud:** Right.

**Bret:** Let's say I'm speaking at events frequently and I want to process my own sales at the event, because that's how the promoter has it set up.

**Jud:** Yes.

**Bret:** Can I buy terminals from somebody like you for that, and what requirements are you looking for?

**Jud:** Yes, you can. There are a couple different things we offer. We offer credit card terminals that range anywhere from \$150 all the way \$1,000 and a \$1,000, the \$8,000, \$9,000 terminal range, that will be for your wireless terminals that's where you do not need a phone line or power, in order to be able to run a credit card transaction. As long as you've got wireless coverage with the terminal, you can accept the transaction.

On the lower end of the scale, we have your typical \$150 terminal that you would need to have a power source, you need to plug it in the wall as well as, you would need a phone line to be able to dial out. Typically, you're looking at, some set up fees by the hotel or wherever the event is being, held if you're going to use a telephone line so you're looking at a \$100 set up.

I typically don't recommend getting the dial-up terminals unless you're going to be using it infrequently, but if you're going to be a

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high volume speaker with people at the back of the room taking orders for you, I definitely recommend getting a wireless terminal.

One of the things that I do that is sort of a specialty Bret is my larger famous public speakers and such – I loan them, the wireless terminals for a weekend or whenever they need it. It's a service I do; I'll ship it around the country for wherever it's needed. It's a service that most processors would never ship \$1,000 terminals across the country, you know for an event.

It's just something I do. I'm very familiar with the industry and most of the people in the industry still, sort of a favor that we do. Most processors have terminals that you can buy. One thing I would be very cautious of and I want to let everybody know this, is that I usually recommend against leasing terminals. The reason is, because a lease is a three to four year lease and you pay three to four times what the terminal is even worth in the first place.

I know there are lot of people out there who lease terminal for a living and I certainly respect what they do, but me being VP of Affiliate Relations here, I do not lease terminals at all, it's not something I would do and quite frankly. I hate even selling those terminals.

I would rather loan them out to my customers rather than sell them, because they are a \$1,000 terminal and spilling soda on one of them or losing them via shipping that could be quite a hit to somebody who is not a big merchant. That's why we ship those things, we have insurance and we ship them around the country and stuff like that, as a favor to everyone.

**Bret:** That's why you're, considered the friend of this industry.

**Jud:** Thank you.

**Bret:** If I'm at an event where I'm speaking and selling a product, I see I also have the ability to just log directly into Authorize.net and process it that way.

**Jud:** Yes.

**Bret:** I know there's a difference in rates between keys swiped and Internet and all that.

**Jud:** It's a little a bit, yes.

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**Bret:** Yes.

**Jud:** Yes, for all intents and purposes, I guess the easiest way to say this is that, you do get a little bit of a discount on swiping, but it depends on the type of merchant you are. If you're primarily an e-commerce merchant and you do the occasional speaking type thing there may not be any discount at all. It comes out to the amount of volume that you're running.

To go to the flip side, there's definitely a difference between if you have an e-commerce store and you're selling scooters on-line, and you sell them 24-hours a day through your shopping cart and then you have a retail location on some boardwalk somewhere where you sell these things and rent them. Where people are walking up a 100% of all the business, when they're walking up and they're giving you the credit card that's when you get the lowest rate.

When you're swiping that through, the face-to-face transaction and a 100% of all of these is coming through that way that's when you get that lower rate, when you're, considered a retail type environment. When you're a semi quasi e-commerce all the time merchant and sometimes in need of swiping, you may not see any discount at all when it comes to the swiping business. It depends – there are a lot of dynamics that go into each deal for sure.

**Bret:** Jud, you shared a lot of great information with us and I've learned a lot myself, so thank you very much for your time.

**Jud:** Good, you're welcome Bret, any time. Feel free to give me call and you want me to give my number out Bret so people can get in touch with me?

**Bret:** If people are more interested in your services, we set up a special domain for folks that they can go and get more information about PowerPay, what you do and that is going to be at [InfoMarketerMerchantAccounts.com](http://InfoMarketerMerchantAccounts.com).

**Jud:** There we go.

**Bret:** I know people might have some questions that we haven't covered today, how can they get a hold of you Jud if they have some specific questions that they would like to ask.

**Jud:** They can email me at [jsmith@powerpay.biz](mailto:jsmith@powerpay.biz), but that's how they can reach me via email. They can reach me in the office at (877)

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877-3737 extension 1110; they can reach me either way at anytime.

**Bret:** Super! Thanks so much Jud.

**Jud:** You're welcome!

**Bret:** I'm sure we will cross paths at another event soon.

**Jud:** All right, Bret sounds good.

**Bret:** Take care.

**Jud:** You too. Bye-bye.