



A Primer on B2B Credit Card Processing

FEDERATION of CREDIT
and FINANCIAL PROFESSIONALS

EXECUTIVE SUMMARY

Moving money is more complex than you know. When you swipe a credit card at the store, or enter your number online, there's a lot going on behind the scenes. The process seems to go like this:

- 1. You go to the store to buy a widget. It costs \$10*
- 2. You swipe your card to pay for the \$10 widget.*
- 3. The credit card company magically sends a payment to the store and you see a \$10 charge on your credit card statement.*

That's it, right? Well, no. There's actually a lot more involved in "magically" paying for items you buy. Banks communicate between one another. Your personal data is shared. Fees are deducted.

And when you talk about B2B credit card transactions, there is a lot more going on for a lot of reasons. We're going to unravel this mystery for you.

An Article by...

 **billtrust**[®]

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What is Credit Card Processing?

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How do credit card companies make money?

Let's start by taking a look at what credit card companies do, and how they make money. Essentially they charge fees for everything. Each credit card is a little different, but the basic fees break down as follows:

- Annual fees for cardholders
- Interest for not paying off the balance in full
- Cash advance fees
- Overspending fees
- Balance transfer fees and more

Credit card companies also charge for each and every transaction. Every time you swipe your card, the credit card company earns money. If they charged you, you would never use the card. So instead, they charge a small fee – usually less than 3% – to the business you purchased your widget from. Businesses accept these fees as the cost of doing business in a digital economy.

But here's where it gets interesting.

What is Level 1 and 2 Processing?

Credit card companies want to make it easy for you to walk into a store, swipe your card, and walk out with whatever you need quickly and easily. These transactions use Level 1 processing, and share the smallest amount of qualified data needed: the merchant name, the amount you're spending, and the date.



When you use a corporate credit card to make a purchase instead of a personal credit card, the system typically uses Level 2 credit card information. Level 2 processing also includes the tax amount, a customer code, the merchant zip code, a tax ID number, and a little more information.

Both types of data can be transmitted with each transaction. But when you use a card which can provide Level 2 processing data with a bank system that can accept the data, the fees are lower. Credit card companies reduce the rates because when more data is provided, the easier it is to track spending.

What is Level 3 Processing?

Level 3 credit card transactions include an extensive amount of data, making them the most secure transactions of all. You'll also save the most money when you choose to accept and process Level 3 transactions, which require the following data:

Merchant Name
Transaction Amount (Total)
Date
Tax Amount
Customer Code (30 Char)
Merchant Postal Code
Tax Identification
Merchant Minority Code
Merchant State Code
Ship from Postal Code
Amount

Freight Amount
Duty Amount
Destination Postal Code
Invoice Number
Order Number
Item Product Code
Item Commodity Code
Item Description
Item Quantity
Item Unit of Measure

Banks are not the ideal path for processing Level 3 credit card payments. This is because banks lack the technology required to collect and transmit the necessary level of detail to qualify the transactions with the card brands.

Level 3 credit card payments are made with Purchasing Cards, not individual or standard credit cards. Procurement departments are being pushed to use purchasing cards because they are more secure and allow for advanced reporting.

What benefits does Level 3 processing offer?

Save Money: The biggest reason to take advantage of Level 3 credit card processing is because of the cost savings. When this extra data is passed along, the transaction is considered to be extra secure. Level 3 payments are also less expensive for buyers and sellers to process.

Save Time: By including invoicing and remittance data, your business can automatically feed Level 3 processing data directly into your ERP, removing the data entry component that goes along with manually entering payment information.

Reduced Errors: Extra verified data + electronic data transmission = accurate accounting and cash application processing for your team.

Advanced Reporting: Level 3 transactions allow both buyers and sellers to take advantage of line item data in order to better monitor spending and track purchases.

Increased Business: Large corporations prefer to work with merchants that accept Level 3 processing. Government agencies are going as far as to require that departments can only do business with merchants who accept Level 3 processing. By accepting Level 3 processing, you open the door to a new level of business.

How important is Level 3 Processing?

You might as well ask yourself, how important is saving money?

For every dollar processed through a commercial credit card, you can save between .3% and .75%. This means that for every million dollars in corporate and purchasing cards accepted, you can save an average of \$5,000-8,000 in interchange fees.

Level 3 processing is so important that the federal government now mandates using it.

In 2012, the Government Charge Card Abuse Prevention Act was passed, requiring government agencies to create safeguards that prevent individuals from fraudulently using government credit cards. Level 3 processing offers vendor, invoice and payment data that meet these requirements. That's why guidelines require that government agencies only use vendors which accept special GSA SmartPay purchasing cards that use Level 3 processing.

Other large corporations are following the federal government's lead and requiring the use of Level 3 purchasing cards for increased security and reduced fraud. If you don't accept Level 3 transactions, you're going to lose business to the competition.

Why does this matter to my business?

Accepting Level 3 processing will help you take your business to the next level.

- You will rack up significant savings on every Level 3 credit card transaction. The bigger the transaction, the more you will save.
- Your transactions will be more secure.
- Your business is more reputable.
- Your AR department will run more smoothly.
- You can really compete with the biggest companies for the largest purchases. You'll be eligible to submit bids for RFPs from all government agencies.

How do I accept Level 3 payments?

Implementation isn't as complicated as you think. Your ERP, CRM, or accounting software already accepts Level 3 processing information, and can transmit it. You'll need to contact your bank and find out what's involved in processing Level 3 transactions. You'll also need to configure your invoice-to-cash system to send and receive Level 3 data accurately.

Or, you can turn to Billtrust.

Want to add Level 3 credit card processing to your business?

Billtrust's Payment Cycle Management solution will give you the secure invoicing, payment and cash application with Level 3 Processing and PCI Compliance.

Looking to take your business to the next level?

Contact Billtrust today for a demo.

info@billtrust.com or

1-888-580-2455

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for
Order-to-Cash Best Practices

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Printed in the United States of America

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