What restaurant owners don't know about payment processing systems — but should
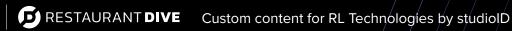
Point of sale (POS) systems are the heart of restaurant and bar businesses. With POS software and hardware, companies can manage orders, payments, labor costs, customer feedback, and inventory. However, when restaurant owners choose a POS system, they are often tethered to a specific payment processing service that owns the POS. Unfortunately, misinformation or a lack of information can make what should be a convenience turn into a headache.

Merchants can be unprepared for the issues they experience after selecting a POS and payment provider. With so many aspects involved in running a bar or restaurant, it's understandable that merchants choose what may appear to be the simplest solution. Ultimately, instead of a simple solution, this decision can be the opposite, causing frustration and costing merchants significant time and fees.

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Merchants are increasingly dissatisfied with payment processor providers

Merchants rely on payment processor providers but are increasingly dissatisfied with the relationship. Ever-increasing fees and the stranglehold major payment processors have on POS systems are only a few of the obstacles that can financially devastate a business.

Let's take a look at some of these top challenges restaurant owners should know about.

1. Soaring fees

2. Limited flexibility with integrated POS systems and payment processors

3. Two companies rule payment processing

4. Difficulty with payment processing services

5. Additional difficulty with POS systems that don't meet merchants' needs

6. Lack of technical support

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Soaring fees

Every time a customer orders at a restaurant or bar and pays by swiping a credit card, the merchant also pays the payment processing service a "swipe fee." That fee can range between 2.5% - 4% of the tab and adds up quickly. For many businesses, these fees are the third highest operating expense, behind payroll and rent.

Even more disturbing is that these fees aren't just high — they're escalating. Credit and debit processing fees have doubled in the last ten years, and from 2021 to 2022, increased 16.7%, costing merchants $160.7 billion. In 2022, credit card processing fees alone increased by 20%, costing merchants $126.4 billion.

Rising swipe fees are a concern across the restaurant industry, explained Ralph Lawrence, Owner and Operator of RL Technologies, which provides restaurant consulting and payment processing solutions. "Add to that, merchants also think about labor costs, rent for those who do not own their building, additional healthcare costs for restaurant workers, and severe inflation. Merchants that do not want to place the credit card fee charges on the shoulders of the customer have to weigh possibly alienating their customer base with the danger of going out of business."

With few alternatives, many merchants do pass on swipe fees, leaking thousands from customers' pockets each year.

16.7%

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Limited flexibility with integrated POS systems and payment processors

Today, most POS systems are integrated with payment processors. That wasn't always the case, explained Thomas Barrineau, Co-Founder/CEO of OrderCounter Hybrid Point of Sale.

> **"Ten years ago, when all the point of sale Value Added Resellers (VARs) who provided value by helping businesses run more efficiently started to compete for the processing business, the credit card processors realized they were losing out on a huge segment of the market that was only growing."**
>
> **Thomas Barrineau,** Co-Founder/CEO of OrderCounter Hybrid Point of Sale

Barrineau said that, in response, credit card processors began acquiring POS software companies, limiting merchants' payment processing choices. "That created the whole ecosystem perspective today where if you want to get a point of sale, you nearly always have to process with a certain processor. This gives processors a sticky relationship with the merchant as well as unfettered access to around 90% of most businesses' cash flow due to the preferred use of credit cards as a payment option for consumers." Barrineau said that along with this access, processors can impose unnecessary fees without any free market competition unless the merchant is willing to go through the pain of uprooting their entire operation and placing it onto a different point of sale product. "Who wants this sort of business interruption? This is why they stay on with processors who are charging them thousands of dollars per year more than they would pay in a free market."

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Two companies rule payment processing

Currently, two major card networks, Mastercard and Visa, control 80% of the credit card market. Lawrence said that the duopoly of MasterCard and Visa, followed by Discover and American Express, is deeply concerning, "When changes come from these companies during a period of economic flux or distress, it is always used as a potential loss/profit recovery correction." Merchants pay more fees when consumers swipe more frequently — benefitting the payment processors. However, when consumers pay with cash or spend less, the payment processors increase their rates to the merchants — so they still come out on top.

The National Retail Federation has asked Congress to pass legislation to regulate swipe fees. However, Lawrence said that the language in the legislation refers to debit card charges, not credit card charges, and will do little to alleviate the current credit card concerns.

While merchants understandably feel they are at a disadvantage, they have options to take back control of point of sale and payment processing systems. Lawrence said the key is finding POS systems that function agnostically and aren't integrated with specific payment processing systems.

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80%

Currently, **two major card networks**, Mastercard and Visa, control 80% of the credit card market.

Difficulty with payment processing services

The financial aspect of the business is only one area merchants must concentrate on. Building out a new space, hiring and training staff, ordering supplies, marketing — it's a lot to juggle. With so much on their plates during start-up, it's unsurprising that business owners go for the simplest route when making decisions. Lawrence said that's often the case when they select a POS system and payment processor. Frequently, it's not until after the dust settles that a merchant better understands the agreement made.

> **"Trying to read the credit card statements is complicated. You practically need a Ph.D. to determine if you're getting what you signed up for. Who has time to look at that every single month?"**
>
> **Doug Mitchell,** Co-Owner/Working Manager of Seville Quarter and The District Seville Steak and Seafood

Some of the typical stumbling blocks merchants encounter after selecting a POS and payment processing system include:

1. **Unclear fees.** "The nomenclature used to describe the individual fees is often misleading, resulting in merchants believing they are saving when they're actually being charged an additional fee," Lawrence explained.

2. **Uncontrollable fees.** In addition to unclear fees, merchants have to pay fees that are out of their control. Payment processing services increase the percentage of sales fees annually. They also tack on application requirements and related charges. "Merchants may be charged 20% of their monthly volume for not being compliant, even as compliance audit companies and payment processing services aren't performing the compliance tasks they are charging for," Lawrence explained.

3. **Multi-year commitment.** Payment processing companies often require merchants to sign multi-year contracts to obtain services. Even when merchants realize the scope and impact of the fees, they're still stuck, explained Barrineau. "Many companies have liquidated damages contracts. If you realize you're paying a lot more money than you expected to and want to leave, they will charge you a penalty, which can easily be $3,000 a month times the months remaining on your contract. That's just too much to handle. So even if they're paying too much, they can't leave because that's just an impossible thing for most small restaurants to afford."

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Some first-hand examples of charges RL Technologies clients have been served by their previous POS systems and payment processors include:

- A payment processor charged a client $500 per month for a never-ending hardware leasing fee. However, no maintenance was ever performed.

- A payment processor's "discount fee" is commonly misunderstood wording used in most monthly statements. It is, in fact, always a charge sustained by the merchant.

- A POS system company notified their clients that Mastercard and Visa are fining merchants that use the intended "Cash Discount Programs" that added a line-item charge to receipts. A new program called the "Non-Cash Adjustment" will add the cost to the menu items. However, no notification has come from MasterCard or Visa. The fines were issued, and merchants then contacted their payment processing company.

- A High-Volume merchant on Pensacola Beach, FL is in a contract that would require them to pay a 3.5 million dollar buy out fee if they wished to change from their non-agnostic POS system or just their payment processor. In this case the two are contractually bound together. Any buyout clause is going to be based on a restaurant's AVM or Average Monthly Sales Volume. Therefore; the more successful your business is the more costly your buyout clause will be.

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Additional difficulty with POS systems that don't meet merchants' needs

Even as payment processing service fees create headaches for merchants, there's another issue. The POS systems frequently integrated with payment processors are problematic, too. Most large POS systems don't offer the level of customization merchants need. Or they provide additional features — and fees — merchants don't need.

Mitchell said finding a point of sale system designed for the specific business with the speed and functionality needed is critical. Since so many POS systems are tied to payment processing systems, it is necessary to look at both functions when choosing a vendor.

Lawrence said POS systems often don't offer customization restaurant businesses need, such as report functions for servers, managers, and owners/accountants. "They may also not be scalable or have restaurant management capabilities, such as scheduling program/labor costs, inventory or table management," he added.

Mitchell agreed, saying, "These processors are changing everything to benefit the way money is processed but aren't considering how to design POS systems to work for restaurants or nightclubs. Merchants need to stick with a POS system focused on their business."

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Lack of technical support

Lawrence said that when merchants have technical problems, support is scarce.

> **"Many of these companies will mail you hardware and put you on phone support. They expect you to have a certain knowledge of your network infrastructure, which becomes quite a nightmare. Many people starting a restaurant or wine bar don't care about network infrastructure. They're already treading into an area that they're not familiar with because that's not what they went into that business to do. So it's easy for them to get taken advantage of."**

Ralph Lawrence, Owner and Operator of RL Technologies

Merchants face many challenges: soaring payment processing fees, unfavorable long-term contracts, integrated systems that don't fit merchants' POS system needs, and limited flexibility.

But they don't have to accept the status quo. They have options. With an understanding of some of the intricacies of payment processing services operations, the next step is to dig deeper to identify unexpected fees and discover better service alternatives.

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Three ways merchants can take charge

1. Understand and assess your current POS and payment processor system statements to determine the charges. Some areas to look at specifically are:

   a. Discount — check to ensure the discount is applied in your favor.

   b. Look for interchange (swipe) fees or surcharge programs and fees to determine if these are correct and for the amount expected.

   c. Subscribe to industry-related periodicals to stay updated on payment trends and practices.

   d. Ask your POS or payment processing services questions.

   e. Get a price and service comparison from different processing services.

2. Partner with an independent sales organization (ISO), Value Added Reseller (VAR), or restaurant consultant to review charges and determine what they mean. As Mitchell mentioned, deciphering statements is complicated, and when merchants have so many responsibilities, it can easily get pushed down the To-do list.

3. Consider alternatives to a primary payment processor. Independent sales organizations are disrupting the duopoly. Many offer POS systems that are agnostic, with technology that works with a variety of payment processors. This way, if a merchant is unhappy with either the POS system or the payment processing service, they can switch out one or both.

Barrineau advised merchants to look for an agnostic point of sale system that gives mobility and a payment processor that will subsidize the cost of buying the agnostic system.

> **"Say you find an agnostic point of sale system that's $10,000, but you find a credit card company willing to buy that system for you. If the payment processor doesn't meet your needs, it's easy to change it while keeping the entire POS system running your business."**
>
> **Thomas Barrineau,** Co-Founder/CEO of OrderCounter Hybrid Point of Sale

In addition to increased flexibility, ISOs provide more transparency than a large payment processor and serve as buffers between the merchant and POS system providers or payment processing services.

What to look for in an ISO?

Just like when selecting a POS system or payment process provider, merchants need to know what to look for in an ISO. Here are some questions to put on the list:

1. What is the best campaign or program for my business? What is the speed and functionality?

2. How accessible is customer support? (Hint: weekdays 9-5 won't work for a bar or restaurant that needs 7-day/24-hour help.)

3. How complicated is the payment processing dashboard suite? Can it be customized to what you need?

4. What do processing reports look like, and how easy is it to create them?

5. Can you access your payment processing dashboard and reports from an app or Remote Desktop Protocol (RDP)?

6. What are the specific fees for chargebacks? How much have overall fees changed in the last year?

7. Does the payment processing service have a free placement program for credit card readers, and how much do they cost through the payment processing service?

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Finding the right point of sale and payment processing service that fits your business takes time and effort. However, making the wrong decision can be extremely costly and frustrating.

When merchants better understand how these systems work and explore their options, the future of payment processing will look much brighter. Lawrence said that merchants can save money because they can streamline their restaurant management and have the agility to adjust their business to a rapidly changing merchant environment. "Most importantly, merchants can decide what they want to do as opposed to being told what they are allowed to do."

He added that considering ISOs was essential.

> **"Finding someone who doesn't have a loyalty to a product but stays loyal to their customer is hard to find these days, but it is invaluable when you do."**
>
> **Ralph Lawrence,** Owner and Operator of RL Technologies

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At RL Technologies we are more concerned with the loyalty to our customer than to a specific brand or service. We are an organic company that has been designed from its inception to grow as organically as possible. This has allowed us to flow with the individual needs of our customers. While the dedication to our customers vision is paramount, we must always be ready to change directions or make corrections that can fall evenly with in the space between vision and application. Ultimately: we strive for the success of our customer. RL Technologies understands that our success is singularly attached to their success. This means being the boots on the ground, first phone call you make company that most groups give lip service to but never actually achieve. RL Technologies strives to be the strongest link in the chain of companies, vendors, or individuals that helps a company to grow. We have a motto we use when talking to our clientele, "Don't panic, it's organic!" In other words, whatever the challenge, we'll work with our customers to find the answer that fits their needs.

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