

Problem Solved

Improving Card Processing

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This company learned that it pays to take a fresh look at an old process.

When Tony Zalar joined Lincoln Electric as Director of Customer Credit Services and Sales Support, he decided to examine its credit card processing. At the time, Lincoln, a welding and cutting products manufacturer founded in 1895, was happy that it offered customers the convenience of credit cards.

But Zalar realized the old, manual process was obsolete. And as card usage increased from \$18 million in 2005 to over \$8 million a month in 2008 interchange fees skyrocketed. “The ‘Aha!’ moment was looking at the contract and finding out the interchange rate with the bank,” said Zalar of the 2.7% rate average of American Express, MasterCard and Visa cards.

Lincoln considered eliminating card payments but realized that wouldn’t fly with customers. So Zalar brought in Aaron Bills of payments solutions provider 3Delta Systems to help. “Lincoln’s scale was small in the beginning so it was easy to not pay attention to the details because it was a minor element of its overall payments program,”

said Bills, COO of 3Delta. “We do find that, because a client doesn’t know what to ask or look at, they take something convenient that comes along that’s not actually so reasonable.”

Bill said Lincoln was like many suppliers: It signed on to a basic card program through its treasury bank in order to offer maximum convenience to corporate p-card users, using conventional terminal devices. “That’s not a sufficient way to support B2B card processing,” he said.

Zalar realized Lincoln had signed up for a consumer card processing program, and Bills pointed out that B2B users could qualify for a much better, volume-based, interchange-fee rate, or Level 3.

The first thing Bills did was switch Lincoln’s technology from the consumer-based swiping system. “The card swiper is not designed for the rich detail that card processing can potentially offer, but many merchants have that,” he said. Lincoln’s new technology automatically emailed transactions to customers and was PCI compliant, lowering costs and improving security.

But Zalar and Bills went beyond inter-

change rates—which decreased from 2.7 to 1.4% and saved Lincoln \$1.4 million in interchange fees in 2008. They got Lincoln clients to agree to a 15-day payment cycle, shortening DSO from 32 to 19. “So much of this comes from education,” said Bills. “A lot of folks just don’t know that credit card contracts cycle only two or three years so their interaction with networks is infrequent. That’s the biggest impediment to expanding the credit card program.”

Zalar also switched card processors when he realized his treasury bank did not offer tiered, Level 3 pricing. In choosing 3Delta, Zalar went with a processor that also offered future growth possibilities. “3Delta gave us an eye to the future that, if we wanted to move to a B2C platform, we’d have that capability,” he said. “They met our current and possible future needs.”

As a bonus, 3Delta provided monthly reports that further educated Zalar about processing. “You’d think there’s only Amex, Visa and MasterCard but you find out there’s 50 different types of Visa products,” he said. “Your local college might have its own card and interchange rates.” ▲

Pearl of Wisdom

Rely on a strong process to drive changes. “We used Six Sigma to drive the analytical process and better understand the results,” said Zalar. “And we measure our cards monthly now so we understand and we can change the program if we want to.”