



# Bulletin

## Credit Card Payments

### INTRODUCTION

Financial transactions between a contractor and his or her client and vendors have traditionally involved a one-time cash payment, a down-payment with interval payments or a bank loan. Increasingly, credit cards (Visa, Mastercard, American Express, etc.) are being used to cover these transactions. Before you choose this option, be sure you understand its advantages and disadvantages.

#### **Get Established**

When a contractor uses a credit card account to pay vendors and suppliers or to accept payments for projects by clients, the contractor must first work with a bank to establish the account and then the bank must arrange with the credit card company to make the payments. Be sure you understand all the conditions and requirements involved with the account to avoid additional fees.

Using credit cards to pay for purchases or accepting payments by credit card from clients is not a costless financial transaction. Banks impose fees to cover the processing of payments and these may range from 1% to 3% of the transaction amount. The party who accepts the payment must absorb the fee, and that fee may affect your negotiated price for the goods or services. And, if a contractor accepts a

credit card payment for a project, the fee affects the profit margin.

#### **Advantages to the Contractor**

When a contractor accepts credit card payments for a project, the advantages may be substantial:

- Faster payment (within 30 to 45 days) and improved cash flow
- Electronically deposited funds
- Improved customer relations
- Improved reconciliation
- Simplified administration

#### **Advantages to the Vendor and Supplier**

Payment for equipment and supplies with a credit card brings substantial benefits to the vendor or supplier. In addition to improved cash flow and customer relations, the vendors and suppliers enjoy the following:

- Improved customer relations through better integration with buyers' processes
- Improved reconciliation
- Payment arrives prior to shipping
- Faster payments lead to working capital improvements
- Reduced processing results in increased cost savings

- Simplified administration results from improved reconciliation and electronic deposits
- 45% of suppliers reported an increase in sales volume once they introduced card acceptance for B2B payments
- Allows sales through online channels
- Provides opportunities to gain “preferred supplier” status and/or capture additional orders

There are advantages to the contractor who pays for his or her purchases with a credit card. The contractor may receive a rebate based on the volume of vendor/supplier payments, depending on the credit card company’s terms.

## **CONCLUSION**

Credit cards are rapidly becoming the preferred method of covering a variety of financial transactions between contractors and their vendors/suppliers and project owners. Real-time payments improve cash flow, business administration and customer relations, to name just a few advantages. However, credit cards come with fees which the receiver must absorb, thereby reducing the payment accordingly.