Your Residual Split: Understanding How It Works

If I had to make a rough estimate, it seems to me that about 90% of sales agents aren't actually very familiar with their residual splits and how they work. This isn't a great position to be in and you don't want to be in the dark, so take a look at these tips to get a good grasp on the subject:

1) First of all, do you actually own your residuals for the life of you account? If not, then years of work on your part could just disappear literally overnight. You could have been working tirelessly to build up a huge portfolio, but it would all be down the toilet simply because you stopped selling for awhile. Many ISOs have these stipulations, where you're required to bring in new accounts every certain amount of time, or your residuals are lost. Does that sound fair to you?

So many agents fall for this racket. Don't do this, no matter how much bigger your part of the split will be. Over the long-term, it's just not worth it. You're trying to build long-term passive income here, not turn your work in sales into an ordinary job—that's a waste of a great opportunity. Make sure you ask about this before you choose an ISO. Tell them to give you an exact play-by-play of what will happen if you decide to leave the business. If the answer is "You will lose your residuals," then walk away. Also, if you can't sell your residuals, then reconsider as well, since this is an indication that you don't really own them.

2) Forget about the percentage of your split. This doesn't really mean anything. To illustrate this better, let's say you're playing monopoly and your friend wants one of your properties. He offers you 30% of his net worth for it. However, another player butts in and raises the stakes. He tells you that he'll give you *50%* of his net worth. Finally, a third player screams over your other two arguing friends and declares that he'll give you 10% of all of his cash if you will sell him the property. How do you decide which deal to take?

Well, obviously, you don't have enough information to make a good decision, do you? Before you know which deal is the best, you need to know the net worth of each of the players! After all, if Player 1 and Player 2 only have 100 monopoly dollars to give you, then you know that what they're offering is a raw deal if Player 3's net worth is 5000 dollars. Even with only 10% of that, it's far more than what the other two players were offering.

The same goes with credit card processors. Ignore their bragging about how they will give you 70% or 80% or whatever inflated number. It doesn't actually mean anything unless you know how they calculate the profit in the first place. Always get some context for these numbers, or else they are just going to be completely useless to you.

3) Always keep an eye on costs and the fees that the processor is going to charge you, as this will have much more influence on your profit than the actual split. You can find out what these fees are by looking at the Schedule A that your credit card processor will provide for you. You will also need to ask yourself a few things when considering cost. For example, do they add basis points before they calculate the profit? What are they going to charge you for the transaction fee?

Some processors give you a true interchange pass through, while others will mark up the fees a few basis points above interchange before they start to calculate the profit. With the former kind of processor, things are a bit more obvious. For example, if your transaction fees are $0.03 and you in turn set up your merchant's transaction fee as $0.09, the profit per transaction is $0.06. If you had a 50/50 split, then you would get half of that in the end. It's a case of simple arithmetic. However, if you're having to deal with a huge mark up of dozens of basis points first, a lot of that profit is lost, and even if you had a 90% split, it wouldn't be worth it.

By the way, stay away from “buy rate” programs, as they don't offer you good deals. If you have any doubts about this, then be sure to get into contact with me and I will tell you all about it. You might be tempted to go with one of these programs, but I assure you that after I break it down for you, you will change your mind. Always go with a revenue sharing plan, as it's much more lucrative in the long run, especially if you choose a good processor to work with. I've even heard of processors trying to set up these kinds of deals with ISOs themselves, which is very silly in my view. You're trying to run a business here and build your empire, so don't settle for a buy rate.

4) The pricing is not as important as the cost structure when you want to get accounts of a significant size. Aim for a low cost structure for your clients. If your processor is charging more per transaction than $0.04, then you probably won't be able to pass on a reasonable deal to your merchants, so think twice about going with a processor that is this pricey, even if you're making 80% of the split. Make sure to have more than one partner so that you have access to the lowest rates and the best deals, and this way you can give your merchants a variety of options. This is especially true for your larger merchants.

5) Finally, keep in mind that you shouldn't get too caught up in either the cost structure or how much of a percentage of the residuals that you get. Ultimately, making the sales is what will determine your success in the long run. You need merchants to make money, and you need to close a lot of deals. Any ISO or processor that you're partnering with should know this and help you get the kind of training that will lead you down the right path. If you can't even close deals, then there's no point in worrying about your compensation—you won't be getting it anyway! Whether you make 50% or 90% of $0, it is still $0, and that's certainly not a handsome residual to be getting every month. So choose your associates wisely, as they can help you to succeed—or drag you down.

We're happy to help you on your endeavor, so we offer all kinds of resources, from informative material, to help with your marketing, to training. If you're curious or have any questions about how to move forward in this career, then don't hesitate to send us an email.

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