

Office Relocation Planner Guide to Credit Card Processing

Introduction

The world of merchant services can be confusing, especially for businesses who have never accepted credit cards for payment before. In 2006 consumers spent over 140 billion dollars in online purchases, and while some businesses could not survive without accepting credit cards for payment, for other companies there is more of a question as to whether these services are required.



If you are selling directly to consumers, accepting credit card transactions gives your customers a more convenient method of payment than cash or checks, which will in turn **help to expand your customer base**.

Accepting credit cards can also be **beneficial for businesses who experience challenges with cash flow**, as payment funds are usually transferred into your account within a week. Obviously, if you will be selling products over the internet, the ability to accept credit cards is required.

If your business is currently receiving payments from invoiced customers, you may wonder why you should consider accepting credit cards when processing fees take a percentage of all transactions. One reason is **you usually will be paid on a credit card transaction within a week**, rather than 30, 60, 90 days or more. Additionally, accepting credit cards can help you to avoid future potential loss by non-payment of invoices.

Not every business needs to accept credit cards, however. If your average per-order cost per item is in the thousands of dollars, or your customer base is stable or subject to credit checks, you may find it more efficient and less costly to continue invoicing your customers.

There can be large differences in price structures, fees, and service contract requirements among merchant processing providers. It's important to **understand the process and how charges are calculated**. This Guide to Credit Card Processing is designed to help to inform you of important considerations surrounding the credit/merchant payment process, and help you to avoid costly mistakes in selecting a merchant account provider.

The Credit Card Transaction Process

The credit card transaction and settlement process can be confusing and complicated, so we'll start by defining some key terms and describing in step-by-step detail exactly how the transaction payment process works.

One of the most confusing credit card processing concepts to understand is the difference between a **payment gateway account** (the online card processor) and **internet merchant accounts**. Though these are two separate components of credit card processing, they are both necessary and work together to handle payments automatically.



Merchant Accounts are bank accounts that are specifically designed to accept and transfer credit card funds via the credit card processing network. Cards are processed through an Internet Merchant Account either manually through a credit card terminal; manually online through a web based terminal page; or automatically through an associated payment gateway provider linking to the merchant's web shopping cart.

Payment Gateway Account is the online credit card processor or transaction handler which is capable of interfacing with credit card accounts belonging to the online shopper and the

merchant's internet merchant account. The payment gateway handles the verification and transfer requests. The term 'account' when used in conjunction with 'payment gateway' is **not a funds holding account, but a service account** where you can configure your payment gateway settings.



The nature of the credit card industry, with high automation and access to personal funds, **requires very stringent rules in order to maintain any level of consumer confidence.** It would be impossible to obtain that confidence in the typical savings or checking account environment. There are two primary reasons for this:

1. Checking account funds are unreliable and prone to overdrafts and bounced checks
2. It's relatively easy for anyone to open a standard checking or savings account

There are a number of other reasons the industry requires merchants to establish a unique merchant account, however it's the **application and verification processes that give them additional reliability** to help ensure transactions will be completed successfully.

There are strict requirements put into place by credit card companies for merchants who process credit card payments, but merchant account companies also have their own requirements they must meet with credit card companies to assure the integrity of the transaction process.

Most e-commerce shopping carts allow you to choose from a number of payment gateway options. **Most internet merchants select their shopping cart and web hosting company first, then order a merchant account based on the gateways that are available in their particular shopping cart.** Using your internet merchant account requires a payment gateway that links the account to the credit card processing system and your shopping cart.

Select a shopping cart and web hosting firm before ordering a merchant account

You will need to coordinate the payment gateways that will work with your merchant account with those that work with your shopping cart. The following information diagrams the typical payment process from the time an order is placed in an e-commerce shopping cart to the funds being deposited in the merchant's bank account:

Typical Credit Card Transaction Process



1) The consumers complete their orders via the merchants web store. This should be done on a secure web page so that the consumer's personal information is encrypted and can't be intercepted and read by third parties while being transferred over the internet.



2) The shopping cart program on the web host computer gathers the order information, compiling it into a form that is compatible with the credit card processing company's system.



3) The shopping cart transmits the formatted order from the web host to the credit card processor (payment gateway). The processor checks the information it received about the order to ensure it has everything it needs to continue processing the transaction. It then determines the credit card company, and transmits a request for the card to be charged.



4) The customer's credit card company validates the card and the account. If the credit card is clear for purchases, the credit card company sends a message back to the card processor that the amount requested can be transferred.



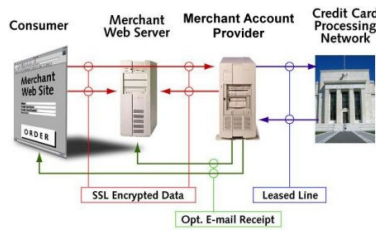
5) The credit card processor now tells the shopping cart program at the web host whether or not the transaction was successful. The credit card processor initiates a funds transfer to the merchant account company for deposit into the merchant's bank account.



6) Internet merchant accounts collect the funds for a specified period of time and make scheduled transfers to the merchant's regular bank account and the credit card processing transaction is complete.

If the customer is using a MasterCard for example, the information will be sent to Master Card's network first, and then forwarded to the bank that actually issued the card. The bank then verifies funds available on the account are sufficient for the transaction amount.

If funds are verified, a transaction authorization is forwarded to the merchant providers' network. The sale itself is now considered to be complete, but **the transaction is not as no money has changed hands to this point.**



To get paid for the transactions they have processed throughout the day, the merchant sends out all the charges in a **'batch'** to the credit card network for payment where individual transactions are stripped out and send to the cardholder's respective banks. The bank then debits cardholder accounts and makes the proper payments to the merchant's credit card processor through the Federal Reserve Automated Clearing House.

The credit card processor then credits the merchant's bank account for the sale amount, minus its fees for the transaction. Those fees also cover transaction fees to the issuing bank and the credit card network. Usually **it takes around two business days before the merchant's account is credited.**

Credit Card Processing Companies

Your Commercial Bank - The **first place to look for credit card processing services** is with the financial institution where you have your business accounts. Many banks offer 'all-in-one' packages that include merchant services, however it can be more difficult to be approved than through other channels. Most banks outsource their transaction processing to third party providers.

Third Party Merchant Providers - Third party transaction processing companies are dedicated solely to processing credit card sales, and handle all aspects of the billing process such as authorization, billing, reporting, and settlement. These providers have easier approval requirements than banks, yet are more selective than most ISO's

Independent Sales Organizations - An independent sales organization (ISO) is a basically a broker who represents many different third party merchant providers. These organizations perform the setup and service of accounts, but do not handle the actual transaction processing.

ISO's are less regulated than other providers, so while some companies are established and trustworthy, others are less so. Be particularly careful when evaluating ISO's, and make sure you completely understand all terms and conditions of a merchant processing contract before you sign it.

Credit Card Companies and Trade Associations - MasterCard and Visa require you to establish a merchant accounts through a third party, but American Express and Discover give you the option of applying directly to them for account services. Also many small business and trade associations offer credit card merchant processing at discount prices, and can be a good resource if your company is experiencing challenges with obtaining a credit card merchant account.

PayPal and Other Person to Person (P2P) Services - You do have the ability to accept credit cards over the Internet without establishing your own merchant account using third-party merchants like PayPal but these can have several disadvantages: They typically batch your transactions into regularly scheduled payments, which means it takes longer for you to get paid. Also rates may be significantly higher with these providers and they may not accept all types of transactions, which can result in your legitimate transactions being frozen. Using these third party providers for merchant account services are really only appropriate if you process one or two transactions a month.

Merchant Account Fees and Gateway Rates

As you can see, there are a few things you need to know if you're considering accepting credit cards for payment. And if you aren't totally confused by now, merchant account fees might just send you over the edge.

Merchant account providers compile statistics on types of businesses that process the least charge-back transactions, which determine the rates and fees that the Merchant Account

provider charges. These costs are based upon the Merchant Account Provider's payment processing efficiency, their flexibility in requirements for accepting merchants, and the number of merchants they have as customers.

In general, merchant account fee structures look more complicated than they really are and when you have the parts that make up the standard pricing breakdown you should be able to quickly put them together and make a good comparison.



There are 3 primary components to the standard **merchant account** fee structure:

1. One time fees
2. Recurring monthly fees
3. Transaction related fees
 - per transaction (set fee such as 30 cents)
 - per order totals (percentage fee such as 2.35%)

These same items apply to the **payment gateway** fee structure:

1. One time fees
2. Recurring monthly fees
3. Transaction fees

The more sophisticated merchant account providers bundle at least one of the most popular gateways into their packages. This not only allows for one stop shopping for the person looking for a merchant account, but also bundled billing and usually better pricing. This is good for the merchant but it can add to the fee structure confusion. One time application and setup fees for both are often combined in these cases.

Look carefully at additional fees! One merchant account provider offers a free application and setup fee, but their payment gateway requires a \$195.00 software purchase. When making merchant account provider comparisons **make sure you total all one time fees**. The terms that

the merchant account provider uses for these fees make little difference. Internet merchant account providers don't list these fees together with a total setup cost so it is important to compile these yourself for cost analysis purposes.

Recurring Fixed Monthly Fees:

Monthly Gateway Fee is a fixed monthly fee that virtually all gateway providers charge. This fee is for the use of the gateway's transaction processing services and usually includes items such as online payment cancellations and transaction reports.

Monthly Statement Fee is a fixed monthly fee that virtually all merchant account providers charge (the actual charge may change though this particular rate is also very good). This is a handling fee and though it is called "statement fee" by most merchant account providers we have seen it called "Monthly Service/Support/Statement" which is more accurate.

Recurring Variable Monthly Fees:

Discount Rate is a percentage of each transaction amount that is typically charged by the credit card company. The amount of this fee depends on the transaction amounts processed during the month, and some accounts have a monthly minimum discount fee you would pay if the discount does not reach that level. Merchants with high dollar value orders should look for merchant account providers with the lowest discount rate.

Per Transaction Fee is primarily related to the gateway and processing the transaction. For example if your per-transaction charge was .10, and you had 100 transactions, there would be \$10 dollars in "transaction fees". For most merchants each order equals one transaction. Merchants with large numbers of transactions should look for merchant account providers with the lowest transaction fee.

One Time Fees are often comprised of the application fee and the gateway fee bundled together. The actual breakdown is not published and is not important except in some cases where the merchant account application fee is non-refundable. In those cases the breakdown should be published.

Fees and More Fees? In addition to these basic fees, there are an astonishing number of fees that merchant services providers can charge: annual fees, programming fees, Internet processing fees, shipping and handling, American Express setup fee, customer support fees, etc. Essentially these are fees designed primarily to increase your bill. We cannot stress this enough:

Always make sure you have a complete understanding of all one-time and recurring charges before making your decision on a credit card payment services

Though the actual dollar amounts and rates for the above items may change, the components are fairly standard. If you are comparing costs it is a good idea to give an example to the sales rep and ask them for a complete breakdown. Using an even 100 for the number of transactions at \$100 average order total makes comparisons relatively easy.

If you do not expect to charge more than a few thousand dollars of electronic payments each month, focus on lowering the set-up and monthly fees from the merchant providers you're negotiating with.

Also **when asked to estimate your monthly sales be conservative** - you may be required to keep a percentage in escrow to cover fraud. For larger credit card electronic payment volumes, reducing per-transaction costs is a higher priority.

It can also be helpful to learn what average ticket sizes you need to qualify for even lower electronic payment discount rates from merchant providers. Some things to **avoid: long-term leases with early termination fees**; if you are unhappy with your electronic credit card processing provider you should be able to switch.

Also **watch for offers of low introductory rates that bump up after a few months**. While all merchant providers will reserve the right to raise prices, you should not select one that signs you up for increases automatically.

Selecting a Merchant Account Provider

1) Know how long it takes for funds to be transferred - Different providers all have payment different schedules for settlement of funds. Make sure you know what this timeframe is so you can avoid surprises later down the road.

2) Carefully compare any variable fees listed in the contract - Carefully analyze fees that vary between providers and may be negotiable. Such fees include set-up, cancellation, and monthly minimum fees.

3) Figure out what the total cost of your service will be - Compile all the fees a provider will charge you based upon the contract, and then calculate what your total cost would be based on your best and worst recent months.

4) Read the contract in detail and understand the terms and conditions - Make sure to read the contract in detail to understand all fees, minimum charges, the term of the agreement, and termination clauses. Some providers will not cover every point and leave it to you to uncover the details.

While price is important, don't **let it be the driving force behind your credit card processing company decision**. Instead, consider other important aspects of your buying decision:

Customer support is the most essential element – problems with a credit card processing company can quickly impact your bottom line. One way to learn about a provider's level of customer service is to obtain customer referrals from current clients. Request referrals to merchants that are comparable to your company in size and industry, and ask them detailed questions about their support experiences.

If your business will be selling over the Internet and you do not have a secure web server that can encrypt credit card information, **make sure your credit card transaction provider can offer secure ordering through SSL**, which is a widely-used web standard for security.



Finally, if you are not using a bank or financial company you recognize, **make sure you verify that the company you are investigating is legitimate** - there are crooks who set up fake processing companies, then collect setup fees and disappear. If you are considering a credit card transaction provider you have found on the Internet, **make sure you get a physical address and phone number for the company** and ensure they are legitimate.

Conclusion

Your credit card processing providers are an important buyer resource during the relocation process, and making sure you get the right one now will save you time, money, and aggravation down the road. The right provider will take a service oriented approach to your purchasing request, and offer expert-level skills. Also, they should work with you to solve or eliminate any and all problems you have during the purchasing and implementation process.

As you can see, selecting the right credit card processing system and provider for your business requires the consideration of many different factors. We hope this guide has helped to inform you about the features and functionality available today in credit card processing technology, which will ultimately help you to select the right provider for your company's requirements.

Note: This guide provides general guidance and should not be construed as specific financial, technological, insurance, legal, or accounting advice. Always consult a qualified advisor for specific guidance in these matters.