

Handout 2: Online Payment Methods



The typical evolution of a company's online presence goes like this: First, you put up a "brochureware" site about your company – usually a free or inexpensive service. Next, you start showcasing products to your customers. If things go well, you graduate to a site of your own, with a distinct identity courtesy of a web developer or service provider. This is where things start costing real money, and you'll soon want to be taking in real money online.

Unfortunately, the world of online payments can be confusing. Just duplicating the payment methods you normally accept in the real world – like credit cards and purchase orders – can require some serious research. Throw in options like debit accounts or special corporate purchasing cards and you've got a mind-numbing array of options on your hands.

I'm here to save you from all that – or at least lend a guiding hand through the wilderness of options. This article will focus on how to set up online payment processing for your web site, from credit card transactions to processing purchase orders to special payment methods that you might not even have heard of. Let's start with the most common method of payment: Credit Cards.

Virtual Plastic

First of all, let's assume that you have some kind of shopping cart on your web site; your web developer or service provider should provide a way for customers to select products and check out. They've probably also given you some options for transaction processing; if they are processing the transactions themselves and sending you a check every month, congratulations: you've avoided a lot of hassle. But they're probably also taking a substantial cut of your sales via transaction or processing fees.

In most cases you are the one actually responsible for determining how credit card transactions are processed. That's because you're the one with the merchant account; you've got a machine to process cards and an account set up that deposits those

funds, minus the various fees that the banks and processor charge you, into your business account.

To determine how you want to process credit cards, you need to remember the three Cs: **Cost**, **Convenience** and **Crime**. Cost is easy: How much are you willing to spend in setup fees and ongoing transaction fees (both are common)? Convenience is how easy you want your credit card processing to be; do you want to turn it on and forget about it, or are you willing to give up convenience to save money? We all know about Crime, and believe it or not, criminals and their desire for credit card numbers have an awfully big influence on the way credit card processors do business.

Adding Up

If you do much business with credit cards, you're familiar with the little fees that chip away at your margin. The rate you pay for a credit card transaction – usually a percentage of the purchase, a small fixed fee, or both – is actually a combination of fees that enrich everyone in the complex chain of processing. The company that sold you the machine and set up the account usually gets a cut, as does the actual processor who takes the calls from your machine and tells the banks what to do. Those banks that clear the transactions also get a little scratch, as does the issuer of the card – Mastercard, Visa, and so on.

Seems like a lot of fingers in the pie, doesn't it? Well, get ready for more. If you elect to process credit cards online, another party comes into play: the gateway. A gateway is a lot like your credit card machine – it takes the credit card number and talks to the processor to find out if the number is valid and the cardholder has available credit, and then executes the transaction or returns an error.

Of course, gateways add more fees. In addition to setup fees and annual fees for the service, gateways often take another penny or two out of every order. And don't be surprised if your regular rate for card transactions goes up as well when you process through a gateway; internet purchases typically get charged higher rates than normal credit card transactions where the customer presents their card.

Why is this? One word: Crime. Fraudulent transac-

tions are much more common online, thus the rates are higher because the transaction carries more risk. In addition, the measures undertaken by the credit card companies and the gateways to reduce fraud contribute to the overall cost. If we look at gateways from the perspective of the three Cs, gateways add enormous Convenience by automating processing and reduce the possibility of Crime, but at significant Cost to your bottom line.

There are dozens of gateway providers available to choose from, and I recommend you choose based on the three Cs and their relevance to your particular need. Your service provider or web developer may also have a preferred gateway that they can connect to for minimal cost, so make sure to ask them for a recommendation as well.

Old School

Let's pause for a moment and point out one thing: If you've got a credit card machine, you can always process transactions that way. By doing that, you give up convenience for reduced cost, because a transaction processed on a credit card machine is typically cheaper than one processed online. This is called a "Card Not Present" transaction and is accomplished the same way you would handle a customer who gave you a credit card over the phone.

From a Cost perspective, this is the best option, because you don't pay for the gateway and get charged higher overall fees. You simply take the credit card numbers your customers provide in their online ordering process and run them offline. This doesn't score very high on Convenience because re-keying all those credit card numbers can be a hassle, especially if you have much volume.

The biggest problem with this method is the potential for Crime. You have to store those credit card numbers somewhere, and anytime you store credit card numbers you open yourself up for risk. Your web developer or service provider should, at the very least, give you a method for encrypting and retrieving the numbers online so that you can access them securely, but even then you are giving more eyes the opportunity to see those valuable credit card numbers. If you do decide to process these transactions offline, make sure you have encrypted storage of the numbers with a password to protect them. And don't ever email credit card numbers.

The other problem with processing internet transactions offline is that it may violate your agreement with the processor. Because the processor – and all those other folks that take part of your money – are exposed to more risk with an internet transaction, they can dictate that any internet transaction that you process gets charged a higher rate, whether you process it online or on a machine in your office. Make sure to check your agreement before you start charging those internet orders on your office machine.

That's a lot of stuff to think about, and we've really only discussed the two biggest options for internet credit card processing. The good news is that most service providers and web developers have policies and recommendations that can help you make decisions without having to sift through the whole array of options. There are even ecommerce companies that really do most of this in the background for you. That's convenient, but the cost is often even higher. Whether or not you consider such high processing fees a crime may help determine the choice you make.

Some Popular Gateways

Verisign Payflow Pro: www.verisign.com

Setup/Annual Fee: 1 year = \$800 or 2 yr = \$1300

Transaction Fee: Setup/Annual fee is a part of the monthly transaction fee, included are 1000 free transactions, thereafter, \$.10 per transaction

Authorize.net: www.authorize.net

Setup/Annual Fee: \$299 setup fee; no contract.

Transaction Fee: \$20 monthly; 250 transactions included; \$.10 thereafter.

Securepay: www.surepay.com

Setup/Annual Fee: No set up fees

Transaction Fee: Rate 2.24% with \$.25 per transaction fee. Monthly Statement Fee is \$8.00. Gateway and web terminal fee is \$15/monthly.

Plug n' Pay: www.plugnpay.com

Setup/Annual Fee: \$295

Transaction Fee: Monthly \$20 for 200 transactions, thereafter, \$.10 per transaction.