7 Common Mistakes to Avoid When Selecting a Payment Processor

Introduction

Selecting a payment processor is one of the most important steps to getting paid online. But comparing solutions for accepting credit cards and other payment options can be confusing. There are a wide range of features, benefits, and prices to consider – and a lot of fine print to read.

Like any business owner, you want to turn a profit as quickly as possible. No doubt you're making it a top priority to process your customers' payments at the lowest possible cost.

Choosing a low-cost way to process payments makes sense on the surface. However, it's just one of the 7 common mistakes online merchants can make when choosing a payment processor:

- Mistake #1: Assuming that "lowest rate" means "lowest overall cost."
- Mistake #2: Losing fast access to your money.
- Mistake #3: Not giving customers a full range of payment options.
- Mistake #4: Not getting protection against unscrupulous buyers.
- Mistake #5: Underestimating the importance of data security.
- Mistake #6: Tackling PCI compliance on your own.
- Mistake #7: Not thinking about ease of setup or support availability.

Read on to learn more about these missteps, and how to avoid them.

Mistake #1: Assuming that "lowest rate" means "lowest overall cost."

Finding the lowest rate for credit card processing seems simple enough – until you notice the asterisk. That means there's fine print to read, including clauses that alert you to dramatically higher processing fees you'll pay on certain types of transactions. These rate hikes won't just cut into your margins – they can turn a profitable transaction into an unprofitable one.

Why is it so difficult to find the actual lowest rate?

Most payment processors (or merchant services) charge different rates depending on several factors, such as the type of credit card used, and how the transaction is processed. The different rates generally fall into three tiers:

- **Qualified rates are the lowest rates.** These are the rates processors often advertise most heavily, but they apply only to certain types of cards that are physically swiped through a credit card terminal. eCommerce transactions generally do not qualify for this rate tier.
- **Mid-qualified rates are higher than qualified rates.** Processors tend to put some rewards and business card transactions in this category, along with cards that are key-entered into a terminal instead of physically swiped. Generally, eCommerce transactions also do not qualify for this tier.
- **Non-qualified rates are typically much higher.** Transactions that don't meet the requirements of the two categories above are charged a non-qualified rate. This rate also typically applies to credit cards that earn airline miles, loyalty points, and cash-back rewards. eCommerce transactions typically fall into this tier.

You want to give your customers a wide choice of payment options so you can keep them happy and make more sales. Loyalty cards and business cards are quite popular, and many of your sales are likely to be made with non-qualified credit cards. As a result, the actual transaction fees you pay the processor may end up being higher than the advertised rate.

So, how can you control your total processing fees? One approach is to track the breakdown in your customers' card usage, and then project your estimated processing fees over the months to come. That calculation will give you an idea of the effective rate you actually pay. You may find that you're actually paying much more than you thought.

You may want to consider working with a processor that offers flat-rate processing, charging you one rate instead of bucketing transactions into tiers.

Finally, watch out for a host of extra hidden fees that merchant services might charge (see sidebar).

Why hidden fees matter.

Many processors charge additional fees on top of their processing rates. Some of these fees can be buried in the fine print and include:

- **Cancellation fees.** Some processors will charge you a flat fee when you terminate their services.
- **Withdrawal fees.** You'll need to move your funds from your payment processing account to your bank account on a regular basis. Some processors attach a fee to these transactions.
- **Batch-processing fees.** Prefer to process a group of credit card transactions at the end of your workday? With many payment processors, you'll have to pay for that privilege.
- **PCI compliance fees.** Some processors charge a fee for Payment Card Industry Data Security Standard (PCI DSS) compliance support, even if they don't provide that service.

Paying such "hidden" fees may cut into your profitability significantly. Although you can try to run your business in ways that help to minimize these fees, most will remain outside of your control. So be sure to ask your payment processor to detail all potential additional fees up front.

Mistake #2: Losing fast access to your money.

We've all heard horror stories like these:

- *An online merchant launches a business and begins making sales. Everything seems to be working fine – but then the payment processor suddenly informs the merchant that her account will be frozen for several weeks due to the need to investigate suspicious activity. Meanwhile, the merchant's bills begin to pile up – and she has no way of paying them without her account funds.*
- *An online merchant is unaware that his payment processor has a policy of holding all funds received for several business days. When a customer's payment goes through, the merchant has to ship the product to that customer, regardless of the fact that he won't actually see the money from the transaction in his account until days later.*

In the earliest days of online payments, such holds were more common. But today, working with payment processors to clear valid sales that may trigger fraud protection monitoring, such as irregular transactions, international sales, or sudden spikes in sales volume, is generally a straightforward process.

Any time lost in accessing customers' payments can create problems for your business – and you. Look for a payment processor that is likely to provide you with the quickest access to the money you earn from online sales.

Mistake #3: Not giving customers a full range of payment options.

Today's customers expect choices. The more payment options you offer, the better your chances of capturing a sale. Some consumers remain reluctant to use credit cards online despite secure payment processing protocols. Others will abandon their shopping carts if a preferred payment option is not available.

Offering several trustworthy payment options in addition to credit cards helps you attract more customers, reduce cart abandonment, and ultimately, increase sales.

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Mistake #4: Not getting protection against unscrupulous buyers.

The vast majority of people who purchase your products and services online are merely looking for a good deal. But there will always be a few bad actors who try to get something for nothing. At some point, you may receive an unauthorized payment from a fraudster using a hacked credit card account. Or you might receive a payment, ship an item, and then get a complaint from the customer claiming that the package never arrived.

In the first case, you could choose to absorb the cost of refunding the unauthorized payment. In the second, you could simply ship a duplicate item to your customer. Many merchants consider these expenses part of the cost of doing business. But over time, fraudulent transactions can really add up.

Rather than simply writing off their cost, consider working with a vendor that helps protect you from the sting of fraudulent transactions in the first place.

Mistake #5: Underestimating the importance of data security.

Stealing customer data from retailers, such as credit card information and personal identity information, is big business for cybercriminals and other fraudsters – just read the news headlines.

It's imperative for online merchants to choose a payment gateway that's backed by a secure, reliable payment processor. As you evaluate vendors, look for those that offer services designed to help protect your online business, and your customers, from fraud.

Mistake #6: Tackling PCI compliance on your own.

There's another reason to worry about data security: compliance.

The Payment Card Industry Data Security Standard (PCI DSS) is a U.S. payments industry standard that lays out rules for preventing, detecting, and reacting to security incidents. To ensure compliance with PCI DSS, many online merchants spend a lot of time and money developing and implementing strong payment card data security processes. Working with a payment processor that keeps your customers' data secure can help to reduce your workload around meeting PCI compliance requirements.

Mistake #7: Not thinking about ease of setup or support availability.

Setting up payment processing is a task that requires some technical knowledge. Tackle the job yourself without the necessary tech skills, and you run the risks of frustration, lost time, and lost customers. It's a much better idea to find a payment processor that offers solutions that are easy to get up and running quickly. And because your online business is always open, round-the-clock technical support is a must.

Making the right choice for your online business.

Choosing a payment processor for your online business is a big decision, so it's important to research it carefully. Look for a solution that can meet your volume demands, technical needs, and budget – and also help you keep your customer data secure, and your business in compliance. Most of all, look for a payment processor that not only can help you protect your bottom line, but also grow it, by offering a solution with straightforward pricing and the flexibility to let your customers pay the way they want to.

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PayPal is one payment processor that works to help merchants avoid the 7 mistakes outlined in this paper. Here's how:

- **Transparent, flat-rate pricing for all credit cards, qualified or not.** PayPal's flat-rate structure may save you money – and worry – at a time when use of non-qualified credit cards continues to be popular with consumers. PayPal doesn't charge add-on fees that many other vendors apply to cancellation, withdrawals, and batch processing. In fact, you can get started with PayPal Payments Standard without paying a monthly fee.
- **Fast access to money from sales.** Online merchants that use PayPal as a payment processor don't have to worry when it comes to accessing money from sales. Once an order is complete, your money shows up in your PayPal account, usually within a few minutes. From there, you can transfer it directly to your bank account, or use the PayPal Debit MasterCard® and earn 1% cash back on qualified transactions. Enrollment is required.
- **Flexible options that benefit merchants and customers.** PayPal offers a range of payment solutions to meet the diverse needs of online merchants – and give their customers convenient and secure ways to pay.

  Adding PayPal Express Checkout to your site, for example, lets customers pay with just a few clicks, without sharing their financial information.
- **Robust fraud protection services.** PayPal will screen every transaction based on settings you define. PayPal will help with denying high-risk transactions, hold them for your approval, or approve them while flagging them for your attention. And if you're sent an unauthorized payment or a buyer claims to have never received an item, PayPal Seller Protection is available for eligible payments from buyers.

  Seller Protection is available for eligible U.S. sellers and covers physical, tangible items that are shipped for the full transaction amount plus original shipping charges.
- **Simplified compliance and data security.** Your customers' financial information is stored and encrypted on PayPal's secure servers — not on your servers. This not only helps to ensure data security, but also reduces your workload around meeting PCI compliance requirements.

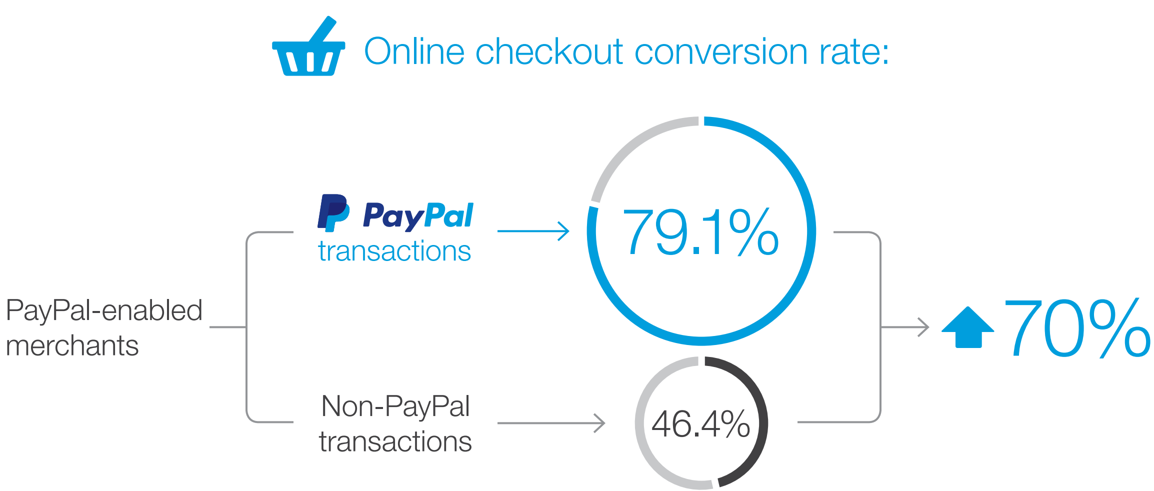
  PayPal adheres to international PCI and CISP (Cardholder Information Security Program) standards for data protection.

- **Ease of setup and 24/7 technical support.** All PayPal payment solutions are designed to be as easy to set up as possible. Express Checkout, for example, works with many leading shopping carts and payment gateways, so it's easy to add to your existing checkout.

  Once you've opened your PayPal Business account, you simply follow your cart provider's step-by-step instructions to enable PayPal in your checkout. Merchants who use PayPal as a payment processor also can access round-the-clock technical support for any payment-related problems.

These are just some benefits you can expect when you choose PayPal as the payment processor for your online business.

Here's one more benefit to consider: As an online merchant, you can become more attractive to the 148 million shoppers around the globe who actively use their PayPal accounts. Research shows that offering PayPal as a payment option can help to significantly boost online checkout conversion rates.[1]



For more information on how PayPal solutions can help meet the payment processing needs of your online business, visit www.paypal.com.

[1] PayPal study conducted by Nielsen Buyer Insights in Q3 2013. The study examined online conversion rates for PayPal transactions versus non-PayPal transactions across 7 categories for 22 large merchants.