

Financial Middleman for Small Business

By Pavel Lenshin

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Small online businesses are mostly represented by home-based entrepreneurs. In this regard any payment scheme or system should meet at least two criterions:

First. It should be relatively cheap. Individuals are usually not enjoying huge investment potential in contrast with legal entities.

Second. It should lead to complete automation of financial transactions as a result of lack of time or inability for the majority of entrepreneurs to hire support stuff to serve these transactions.

In short, it all comes down to the shortage of money and time. For these simple reasons, sophisticated e-commerce systems based on merchant accounts are expensive, hard to establish and support for an average entrepreneur. That is why third party payment processors that will handle all online orders on your behalf became widely popular among small businesses. They require very little effort to establish and even less effort to support. In most cases they will provide you with completely automated as well as quick and reliable for your customer way of payment.

This will allow you to accept payments 24/7 focusing your business to work on other tasks and activity.

In practice once set up, the whole customer paying and product delivering process becomes fully automated and

consists of the following steps:

1. Customer fills out the order form and clicks on the submit button to pass the order to the payment gateway;
2. Automatic payment gateway routes credit card (e-check etc.) data and purchase amount to the payment processor of the merchant (seller) acquiring bank;
3. Acquiring bank sends authorization request to the payment processor of the customer's issuing bank;
4. Issuing bank validates customer's account, credit limit and authorize the transaction, freezing the specified amount on the customer's account;
5. Issuing bank routes authorization code (or "transaction declined" message) to the acquiring bank's payment processor;
6. Acquiring bank routes payment approval (declined) message to the payment gateway;
7. Payment gateway notifies the merchant (seller) about approved (denied) transaction;
8. Provides customer with the product s/he ordered, the details of shipping etc. or notifies about payment problems;
9. Banks' clearing settle the mutual transfer of funds, crediting the respective merchant (seller) account with the specified amount of purchase.

All these steps due to complete automation process, if we don't speak about phone or mail orders etc., will take somewhat between several seconds to several minutes, still usually faster than when you are billed at the store's pay desk and much faster considering the speed of going for online shopping instead of the "offline".

This publication intended to analyze existent picture of third party processing companies and represent you the comparative facts that would help you to determine your preferences based on business needs and capacities.

The table below will provide you with basic features of the most "visible" today's online payment processing players. Please note, that the online financial market evolves extremely fast, so the table data is accurate as on the February 2003 what I cannot guarantee in a month, all the more in a year, so my advice here is to choose 3-5 most acceptable and affordable financial intermediaries (even if some important for you feature is missing) and recheck their services and fees once more at their web-sites before making any final decision.

Company Name in alphabetical order:

1) Setup fees 2) Monthly fees 3) Commission structure*

2Checkout:

1) \$49 2) no 3) \$0.45 + 5.5%;

CCNow:

1) no (\$11.95 for Int.) 2) \$9.95 3) \$0-\$100 - 0%, \$100+- 9% (11% for Int.);

ClickBank:

1) \$49.95 2) no 3) \$1 + 7.5%;

IBill:

1) no 2) no 3) \$0-\$9,999 - 15%, \$10,000-\$24,999 - 14% etc.;

MultiCards:

1) \$15 or \$150 2) no 3) 11.9% or 9.9%;

PayPal:

1) no 2) no 3) \$.30 + 2.9%;

PaySystems:

1) \$49.00 2) no 3) \$1.00 + 3.95% or \$0.45 + 5.5%;

ProBilling:

1) no 2) no 3) \$0-4,999 - 13.5%, \$5,000-12,499 - 12% etc.;

ProPay :

1) \$35.00 (yearly) 2) no 3) \$.30 + 2.9%;

Regsoft:

1) no 2) no 3) \$0-\$30 - \$3.00, \$30+ - 10%;

Verotel:

1) no 2) no 3) \$3.75-\$75.00 - 13.5%;

V-Share:

1) no 2) no 3) \$0-\$15 - 20%, \$15-\$100 - \$3+4%, \$100-\$200 - \$2+5% etc.

Company Name in alphabetical order: 1) Credit Cards acceptance 2) Online Check acceptance 3) Phone(Fax) orders acceptance 4) Recurring Billing feature

2Checkout: 1) yes 2) yes 3) no 4) yes

CCNow: 1) yes 2) no 3) no 4) no

ClickBank: 1) yes 2) yes 3) no 4) no

IBill: 1) yes 2) yes 3) yes 4) yes

MultiCards: 1) yes 2) yes 3) no 4) yes

PayPal: 1) yes 2) yes 3) no 4) yes

PaySystems: 1) yes 2) yes 3) no 4) yes

ProBilling: 1) yes 2) yes 3) no 4) yes

ProPay: 1) yes 2) yes 3) no 4) no

Regsoft: 1) yes 2) yes 3) yes 4) no

Verotel: 1) yes 2) yes 3) yes 4) yes

V-Share: 1) yes 2) yes 3) yes 4) yes

* Commissions are charged in two most popular ways:
* depending on the sales volume, for instance, 10% for \$0-\$1000 in gross sales and 5% for \$1000+ or;
* flat fees plus percent of the transaction amount: \$2 + 5%, so if you sell your item for \$50 the commission is \$2+\$2.5 (5% out of \$50)=\$4.5

Note, that commissions shown for credit card billing may be the same or may differ from company to company for online checks and, especially, for phone order processing.

As you see, the table compares the most common features of services, while some secondary options like affiliate program, online auctions support or inability of such companies like PayPal to process all worldwide customers including yours truly, were left behind.

IBill and Verotel, for instance, have retail price maximum limits. The dominating majority of payment processors charge additional fees for chargebacks and refunds, while Regsoft, Verotel or V-share offers a completely risk-free start up, charging commission from actual sales only.

The middleman you will commit to should offer easy ways to administrate your account, view statistics, add/delete products on sale, setup price, tune and customize with your web-site image the order page etc.

Depending on the nature of your main product: tangible or intangible, some companies may or may not meet your needs. Check Verza.com payment processing company for tangible and shippable goods. They are the Mother company of Verotel - division specially designed for intangible products or "bits" sellers.

Carefully read terms & conditions agreement, other regulations as well as charge back policy before signing up for any service.

Find out the offered ordering security options.

While some companies provide sophisticated fraudulent control system and supply you with both server secured order form and non-secured order form for your customer convenience, other payment processors had problems even with the coding of their order web-pages, what allowed anyone to literally steal your intangible products by downloading them without payment. That happened because the URL of the so-called "Thank you" page (where sellers arrange their info materials to download) was clearly visible in the source code of the order form. This is unacceptable.

You may also want to test their support system and uptime the same way you do before selecting a web-hosting provider. Because your order page(s) is(are) hosted at the 3rd party payment provider server(s), if they are down for any reason, it may be very sad for your customer to choose a product, click on the order link and get error or "The page cannot be displayed" message.

As you see there are a lot of points to check and analyze. On the other hand, remember a rule of not complicating things. The key for easy decision-making process is not to avoid research as some people do going for the first offer they see, rather than knowing your needs and capabilities including financial beforehand.

Determine them at the very beginning and search companies accordingly, making the whole research smooth and easy. Besides, on the contrary to, say, domain name choosing, payment processor service is temporal to help you build your online business in a quick, cheap or zero cost way. At some stage due to economy of scale it will be cheaper and more effective for your business to establish personal merchant account with respective e-commerce gateway system.

Pavel Lenshin is a publisher of NET Business Magazine, professional web-developer and CEO of:
- <http://ASBONE.com/> - informational portal and provider of discounted internet services for entrepreneurs, including internet access, web-design and hosting;
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