

# Understanding Online Payments

By Robert Levings

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By Robert Levings, President, EasyPay123

## Internet Payment Options

There has been much talk about how the Internet is becoming an important channel for buying and selling products and services. Companies are looking to exploit the Internet in a variety of ways to increase sales to both existing customers and to customers in new markets.

To make these initiatives work in practice requires the application of a range of technologies, from servers to software. An increasingly-critical piece of the e-commerce equation is the ability to pay for goods and services using Internet-based applications.

Internet-based payments offer the benefit of convenience to customers who can pay for their products or services and receive immediate feedback on the status of their payment. Well thought-out payment interfaces will address the payment needs of the bulk of your customers, and offer them valuable features such as electronic receipts, recurring billing options and more. For merchants, online payments can mean that bad debts are reduced and cash flow is improved, improving the bottom line of your business.

The type of payment that you choose will be dependent on your customers' needs and the type of business that you operate.

## E-Commerce Payment Types

Many types of payments can be used in online transactions (here we refer to those transactions that use the Internet as the communications channel). The major types include:

**EFT: Electronic Funds Transfer (EFT)** is a system of transferring money from one bank account directly to another without any paper money changing hands. It provides a means of transferring funds to and from customers and business partners.

**Electronic cheques:** Different types of electronic cheque services are available, but all essentially provide a mechanism for paying over the Internet by enabling purchasers to use their existing chequing accounts to transfer funds to another party. A secure infrastructure ensures that

confidential information is not compromised in transit.

**Debit cards:** Wildly popular for “bricks and mortar” purchases, they have not caught on as a mechanism for Internet purchases because the banks and payment processors have only certified a limited number of devices for transmitting the PIN Number associated with a debit card over the internet. Limited pilots are underway using wireless debit card devices for applications such as pizza deliveries and taxis.

**Credit cards:** Still the dominant online payment type, it is popular because of its ubiquity and the familiarity that customers have in using them in a variety of settings.

**Internet banking:** Some businesses (typically large ones such as telephone companies) enable customers to transfer funds from their bank account to pay bills. Online bill payments are usually facilitated by the major banks where you can log on and pay your bills at your convenience.

**Alternative payment types:** A large number of niche payment types have arisen over the past few years (typically with minimal or no success). These include stored value cards, Internet (digital) cash, pseudo-currencies (e.g. Flooz) and others. No doubt at some point one or more of these payment types will gain a foothold, but none have sufficient critical mass at this time to be a viable alternative for most merchants.

For the purposes of the rest of this article, we will focus on credit card payments, which represent a substantial amount (95%+) of the payments being processed over the Internet today.

## Getting Started with Credit Card Processing

If you are a merchant that is looking to accept credit card payments, there are a few steps that you should follow to ensure a successful implementation. None of them are difficult, but some can take time to complete. It is recommended that you follow each of the steps in sequence to avoid compatibility issues between your application and the financial network.

Let's examine each step in order:

### 1. Determine the Right Payment Interface

The payment interface is the application that you are going to use to process credit card payments. There are many options available to you, and the right choice will be dictated by the type of business you have and the requirements of your customers. Some of the more popular interface options include:

#### Shopping cart

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**Useful When ...** Your customers may be purchasing multiple items from you in a single purchase  
**Make Sure That ...** You understand the features that you need and that you purchase from a reputable vendor

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A shopping cart enables merchants to accept payment for multiple items in a single transaction. Most online retailers that offer a variety of products use some type of shopping cart application. Shopping carts typically provide customers with a number of convenient features, such as an electronic “shopping basket” to “hold” their goods until purchase.

Shopping carts offer a wide range of possible advantages to merchants as well, such as automated shipping and tax calculation; “back-office” tools for payment and inventory management; reporting tools; coupons and discount functions and control over individual and store-wide sales.

Shopping cart software can be purchased and “hosted” by the merchant on a server of their choice, but most merchants choose to use the services of a shopping cart service provider. Costs typically include set-up fees and monthly fees, in addition to your payment gateway fees. Many shopping cart providers offer different levels of feature packages, with fees based on the chosen feature level.

Before you invest in a shopping cart application, understand what features are important to you and to your customers. Make sure that the service provider is reputable and is going to be around for a while. Switching service providers can be expensive, time consuming and frustrating. Your research will pay off in the long run.

### “Buy Button”

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Useful When ... You only have a few products to sell or your customers only purchase one product or service at a time

Make Sure That ... The customer buying experience is “seamless” and secure

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A “buy button” is similar to a shopping cart, but typically facilitates the purchase of only one product (or service). It generally consists of simple html code that you insert into your site that displays an order form with associated product information. Customers click on the buy button, and an order form appears with the relevant order information in it. Customers enter their shipping and credit card information in the form, press “submit”, and their order is processed.

Be aware that some buy button applications force customers to be “transported” to another page that has a different look and feel from your site. Some customers are uncomfortable with this, and may abandon the sale if this happens. Again, shop around. Talk to your payment gateway provider. It will pay off.

### Virtual Point of Sale (VPOS)

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Useful When ... You are processing payments that are coming in by phone, fax or email

Make Sure That ... You have a mechanism to reconcile VPOS payments to bank deposits

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A virtual point of sale application (VPOS) is a replacement for traditional hardware-based POS terminals that you may be familiar with at restaurants, bars and other places where credit cards are accepted. The application is either installed on your PC, or is accessed through a secure web connection (much like an online order form). VPOS lets you authorize, settle, credit and delete transactions, and may perform other functions such as reporting.

VPOS is used by businesses that want to process payments that arrive by phone, fax or email, such as call centres and mail order businesses.

### Wireless

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Useful When ... You are processing payments in remote locations (e.g. pizza delivery, flea markets, etc.)

Make Sure That ... Your data transmission is secure. The wireless connection should be digital to protect data.

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Many wireless devices are emerging now to satisfy the needs of mobile workers. Digital cell phones, Personal Digital Assistants (PDA's, such as Palm Pilots) and specialized hardware can now be used as mobile payment devices. With a "WAP-enabled" cell phone or browser-based PDA, you can enter the basic information required to process a transaction.

Wireless payment processing is useful in situations where traditional or PC-based point of sale devices cannot be used.

### Swipe Card

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Useful When ... The customer is present and when you need to give the customer a signed receipt for their payment

Make Sure That ... Your merchant account is configured to take advantage of the lower discount rate (i.e. credit card fee)

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Swipe card applications are ones where the credit card can be "swiped" through a card reader, and the customer can sign the receipt. The swipe device can typically be connected to a PC, or specialized devices are available for use (such as traditional POS terminals).

The merchant account fees for swiped ("card present") transactions are lower than "card not present" transactions.

## 2. Get a merchant account

A merchant account gives merchants the right to accept credit cards for payment. A merchant account is required for each credit card you wish to accept. This step can be the most time-consuming and frustrating for merchants, and it will also be the component that most influences your costs of doing business online. Researching your merchant account options, understanding the merchant account process, knowing how merchant account providers assess merchants, and "shopping around", will pay off dramatically.

Merchant accounts have several fees associated with them, including a set-up fee (\$200-\$500), monthly statement fees (\$5-\$10), a monthly minimum fee (\$20-\$30) and a discount rate. The discount rate is a percentage of your sales revenue that the banks levy, and it varies by how "risky" your business is perceived to be (many factors enter into this, such as your credit history, the type of products you sell, your sales volume, average order size, etc.).

When enquiring about merchant accounts, start with your bank first. Then shop around. Fees vary significantly from institution to institution. In fact, they sometimes vary within an institution, depending upon the merchant account representative you speak with. Depending upon your sales volume, shopping around can save you a lot of money over time.

If you wish, EasyPay123 has relationships with several merchant account providers, some of which have online applications that are available online on EasyPay123's website. We'd also be happy to advise as you work through the process of obtaining a merchant account.

For more information, see EasyPay123's article entitled "Getting a Merchant Account" available by sending us a request through our online contact form at [www.easypay123.com](http://www.easypay123.com).

### 3. Select a payment gateway

The payment gateway is the service that connects your payment interface to the financial network. Gateways take the payment information from the application, ensure that the data is valid, format it appropriately, and send it on to the financial network for authorization, settlement, etc. Gateways typically also offer advanced features such as reporting and transaction management.

When you select a gateway, make sure that they can connect to your interface of choice (some gateways may also offer their own payment applications that you can take advantage of). Also make sure that they can connect to your merchant bank (so that funds can be deposited to your account). Finally, determine what other features you are looking for in a payment gateway, such as recurring payments, ability to process in multiple currencies, email notification of orders, fraud screening, etc. Shop around and ask lots of questions. Once you connect to a specific gateway, switching can be expensive and time consuming.

### 4. Payment-enable your application

Once your gateway has been selected, someone needs to connect it to your payment interface and customize it to meet your needs (if it is customizable). This is typically the job of your developer. Make sure that the developer has done this kind of work before, and will be around if you need changes in the future. Be explicit about your requirements and document them so that they are unambiguous.

### 5. Test and Launch

Since it's your money that is being processed, be meticulous about testing the application. Use a real credit card (for each credit card type you are accepting) and process a small transaction (e.g. \$1.00) to make sure that the payment is authorized properly and that it settles to your bank account. Once you launch, problems are difficult to fix without affecting your customers.

### How Credit Card Processing Works

In a typical credit card payment scenario, the transaction flow would progress as follows:

1. A purchaser sends credit card and other related information to the Gateway via a web site order form, Virtual Point of Sale (VPOS) terminal, wireless device, IVR system, or other Internet-enabled device.
2. The Gateway receives the information, validates the credit card number, and forwards the authorization request to the purchaser's credit card issuer. Here, the consumer's credit card account and funds availability is verified.
3. An authorization (or decline) response is returned via the Gateway to the payment application. The Gateway securely stores all credit card and related information on its servers.

4. Upon approval, the order can be fulfilled by the merchant.
5. Once the order is fulfilled, the merchant can notify the Gateway to send a settlement request to the merchant's acquiring bank.
6. The merchant's acquiring bank deposits the appropriate funds into the merchant's business bank account.

The above process is highly simplified. Many players are involved in the above process and they must all work together seamlessly for a successful transaction to occur. This is why testing is so important prior to launch, and why it is critical that all of the players connect to one another properly so that information can be exchanged error-free.

### Issues to Consider

In order to avoid costly mistakes, ask yourself the following questions as you plan for, develop and launch your payment application:

1. What are my customers' payment needs?
2. How can I accommodate those needs through the payment application?
3. Which financial institutions should I use for my merchant account(s)?
4. Does my developer clearly understand my payment application requirements?
5. Does my payment gateway support my application and connect to my merchant bank?
6. Will my payment gateway be in business 12 months from now?
7. Have I tested my payment application thoroughly using a real credit card?

### Summary

Offering convenient payment options to your customers is a good way to secure their loyalty and reduce your operational costs. A variety of payment methods are available, and various interfaces can be used depending upon the needs of your customers and your business. When evaluating payment processing options start with your customers' needs and document all of the features that you wish to have in your payment solution. Take the time to shop around, and make sure that the service providers that you choose are ones that you will be happy with in the long run.

### About EasyPay123

EasyPay123 is a leading supplier of payment processing solutions to businesses across North America. Offering world-class solutions at affordable prices, EasyPay123 helps merchants simplify the process of acquiring, launching and using payment applications to improve the way they do business. Visit us at [www.EasyPay123.com](http://www.EasyPay123.com) .

For a description of some of the e-commerce terms used in this article, please visit our online glossary at [www.EasyPay123.com](http://www.EasyPay123.com) .

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- How Transactions are Processed
- Getting Merchant Accounts
- How to Design and Build Payment Applications
- How to Choose a Payment Gateway
- How to Pick a Shopping Cart
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