

How e-Commerce Works

By Aaron Turpen

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When you're trying to go online with your business, the most confusing part comes when you have to decide how to receive money once your customers have decided to buy.

Merchant accounts, gateways, shopping carts, security issues, authorization services, third-party verification, SSL...the list of things to consider is staggering. This is a brief outline of how you can throw out your shingle on the Internet and the options you have for receiving money.

Mail/Fax Orders

This is the easiest way to get set up online. You simply put together a website with your products (with or without a shopping cart program) – an online catalogue, if you will – and you accept orders only by fax or postal mail. Many small businesses start out this way, but most will eventually upgrade. This method does not require a merchant account or any of the trappings of credit card acceptance online. The down side is that if you don't accept credit cards, you are essentially turning away the majority of your would-be customers.

What you need: All you need to run this method is a website and something to sell. The shopping cart program is optional and all orders are emailed, faxed, or postal mailed to you.

3rd Party Acceptance Site

This is the next best thing to receiving credit cards yourself. For most small enterprises, this is the best way to get started online. First you put together your website and shopping cart program and then tie it all into a third-party credit card processor (such as PayPal, CCNow, etc.). Some of them even supply the shopping cart for you! Although some of these services are somewhat unprofessional-looking when compared to actually accepting the cards yourself, they work well and are all that is needed for most small businesses.

What you need: A website with something to sell and an account (usually free) at any 3rd party processor. A shopping cart program may be required as well.

Offline Processing

Many already-established businesses have a merchant account for accepting credit cards. Most of these, however, are not useable online. They are considered "CP" or Card Present merchants (which carry smaller risk than CNP or Card Not Present transactions – which includes online and mail order) and therefore are at lower risk. In order to process cards online with an offline merchant account, you may be required to change the terms of your account or use a gateway processor or authorization service as a go-between from your website to your bank. This translates to more

money per transaction since someone has to pay the middleman.

To avoid this, some businesses accept the information online and then receive it and actually process the credit card offline through their merchant account. From the customer's perspective, the order was processed immediately, but from the merchant's perspective, the card is processed by hand when the order is received (usually via email or fax, depending on how it is set up on the website). Before using this method, you should make sure your merchant bank is kosher with it as you can get into hot water if you break your merchant agreement.

What you need: A website with product to sell, a merchant account, a shopping cart which will accept all of the information and either send it via encrypted/secure email or by fax. Most likely you'll need an experienced web developer or Webmaster to put this system together for you.

Full Online Order Processing

This is the dream of all webmasters and online merchants: the 24/7 automatic order processing system, which requires minimal input or maintenance from the owner. It includes real-time credit card processing, approval, and acceptance. It's very convenient and timesaving. The downside is the extra money you'll no doubt pay for this. For many businesses (especially the mid- and large-sized ones) this extra money spent is offset by the savings in man-hours. It is complicated to get all of the required pieces put together and working properly, but once in place, it is generally self-propelled and requires little or no tinkering to keep afloat.

What you need: A website with product to sell, a merchant account, a shopping cart system, and a gateway or authorization service to link the cart and the merchant account. You will need an experienced web developer and/or Webmaster to put all of these pieces together in working order.

Glossary

Most of these terms are probably new to the average person on the Internet. This glossary will help define some of them.

Shopping Cart: software that acts as an interactive catalogue of merchandise. The user can usually select multiple items, shipping methods, and even options such as colors or sizes.

3rd Party Acceptance Site: These go under many different names, but are usually referred to as payment processors or third party processors. They include sites such as PayPal, Billpoint, etc.

Merchant Account: an account with a merchant bank which allows one or more types of credit card to be processed and the funds transferred from the credit account to the merchant's account with the bank.

Authorization Service or Gateway (API): a "middle-man" service which acts as a buffer zone or common interface between the merchant's website/shopping cart and the merchant bank which will actually process the credit card. Most APIs include credit card authorization and verification as a part of their service.

Hopefully this little glimpse into the options commonly available for businesses that wish to go online to accept payment has proven informative. Good luck!

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