How to Pick an Online Payment Processor

Introduction

Payment Processors, Payment Gateways, & Merchant Accounts
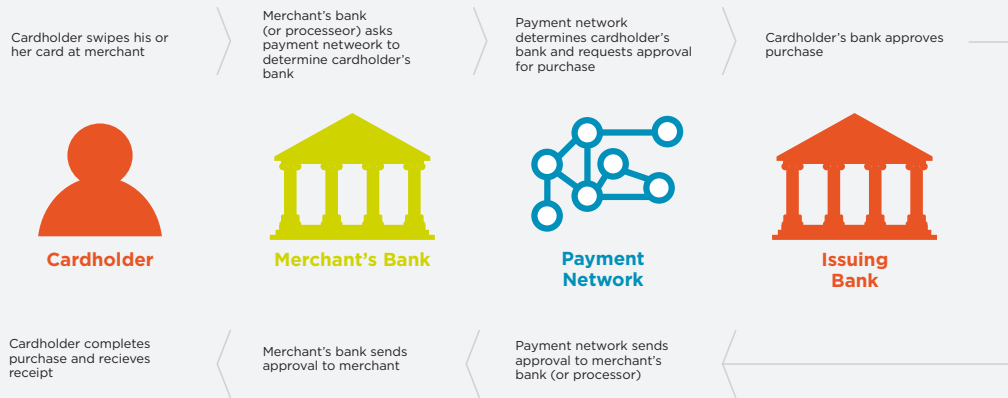
Global online businesses face unique challenges. Aside from creating valuable products or services and knowing where to sell them, e-commerce firms must also create a clear user experience, develop best practices for search engine optimization, outline the most effective shipping routes, and lay out a solid marketing play and other advertising measures. Luckily, online businesses can recruit help to address one of the most important needs in the business: accepting payments online. What may sound like a simple service, though, is actually quite complex, and the different companies that can help you — called **Online Payment Processors** — offer very different points of value at very different price points. But what exactly is an online payment processor and how does it link to a merchant's site?

An online payment processor is a company authorized to process credit card transactions between buyers and sellers. In any given digital sales transaction, a customer will submit his or her credit card information to an online business. Though this transaction is fairly complex, the communication to pay the company first travels digitally to the customer's issuing bank, or the bank that provided the customer's credit or debit card, where it is either approved or declined. If approved, the payment is then sent through the merchant's acquiring bank before the money is deposited in the merchant's account. Online payment processors enable this transaction.

To facilitate this proces, online payment processors also use a **Payment Gateway**, or software and/ or servers that enable buyers and merchants to exchange payments online (for the purposes of this e-book any reference to a payment gateway refers to online retailers). Payment gateways are important because they adhere to a set of security standards called the Payment Card Industry Data Security Standard, or PCI-DSS. These rules protect the buyers' payment information for fraud or bad actors. Online payment processors will typically provide a pre-integrated payment gateway in their services, but will usually charge a gateway fee to do so.

These tools tap into a complex system of banks, processors, and payment companies with one goal: to enable an online merchant to accept payment from an online buyer. But what if some online payment processors also assist merchants in such areas as fraud protection, customer service, data analysis, and international expansion?

Read on to explore what today's processors offer and the questions any growing e-commerce company needs to ask to select the right one.

Cardholder swipes his or her card at merchant

Merchant's bank (or processeor) asks payment netweork to determine cardholder's bank

Payment network determines cardholder's bank and requests approval for purchase

Cardholder's bank approves purchase

Cardholder

Merchant's Bank

Payment Network

Issuing Bank

Cardholder completes purchase and recieves receipt

Merchant's bank sends approval to merchant

Payment network sends approval to merchant's bank (or processor)

Integration

Is it easy to set up?

The main goal for choosing an online payment processor is to not only find a service that fulfills a company's payment needs, but will also seamlessly integrate into a company's technology and website structure. For example, if the merchant plans on working with specific shopping cart software, it's more important to choose an online payment processor that can easily integrate with the selected software than to choose a provider that comes with its own shopping cart program. Another factor to consider in selecting a processor is how much customization and complexity is appropriate for a company. While some online payment processors have offerings simple enough to allow merchants to control their shop entirely, others are incredibly sophisticated and require the merchant to both program aspects of the checkout as well as handle sensitive credit card information.

An online payment processor should also offer merchants the ability to work with various shopping cart software. Shopping cart software allows buyers to select various items or services, saving that information until the shopper eventually decides to buy those items through a checkout service or decline their purchase. Different shopping carts offer different benefits and design configurations; the more carts a processor works with, the more options are available to merchants.

There are two main levels of integration on the market today; use the following descriptions to help determine which will work best for your company's needs.

- **Hosted Checkout**: For companies that need an immediate solution without much required technical help, a hosted checkout is an efficient, immediate method to collect payments online. This option takes buyers from the merchant's website to an externally-hosted website for credit card transactions, eliminating the need for merchants to perform coding or engineering or to become PCI-compliant (a set of requirements necessary for an online party to receive credit card information). Hosted checkout options are a common choice for medium-sized businesses, due to their ease of implementation and use, though at times, large businesses also opt for hosted checkout integrations. Ideally, a merchant should be able to use basic design tools to format a hosted checkout so that the interface closely resembles the look and feel of the host's website. These tools can help a merchant adjust colors, fonts, transparencies, and other basic design elements. Creating a hosted checkout that mirrors the design of a website will help conversions, as buyers will engage on a streamlined, cohesive checkout process, as opposed to feeling like they are being pulled into different sites. Though buyers may be familiar with a merchant's site, they may feel less comfortable submitting their payment information to an online payment processor they have not heard of.

- **API Checkout**: This option may create the most conversions, but demands technical knowledge and execution from the merchant. The application programming interface (API) allows the merchant to keep the customer on his or her website throughout the entire transaction process, thus eliminating any friction involved with sending customers to another website to input their payment information. The API checkout option also allows merchants to completely customize the design of the payment page to fit perfectly with their branding. Though some API Checkouts require merchants to be PCI-compliant, other APIs use a process called tokenization, which takes all credit card information and transfers it into a piece of information called a token that cannot be decoded. The token is then used to transmit the financial information between authorizing and issuing banks, leaving the merchant out of the process and lessening their PCI compliance requirements.

Application Processing
In addition to choosing the actual integration method, a merchant must also consider how quickly it will need to integrate its services onto its website. With this in mind, an online payment processor that offers quick processing will be able to partner with a merchant in the least amount of time.

A merchant will typically need one or more of the following to apply for an account:
- One or more types of government-issued identification (driver's license, passport, or similar form of ID)
- Proof of processing volume
- Proof of business location (utility bill, LLC filing, or similar proof)
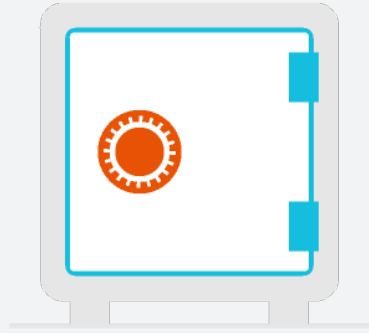
II. Security

Does it protect you and your buyers?

Online payment processors directly handle credit card, debit card and all manner of financial information that a customer submits to an online merchant. Security is an incredibly important factor for any processor's performance, giving visitors the confidence to become buyers. The first step in online security is providing two-factor authentication. Past this gate, there are a list of essential safeguards to ensure that fraud, malware, and hackers have little opportunity to access an online merchant's website and data.

The following three components are optimal to help protect both the buyer and seller from potential security threats, hackers, and malicious software.

- **PCI Compliance**: Before partnering up with an online payment processor, make sure that it meets the current PCI (Payment Card Industry) Data Security Standards (DSS). PCI-DSS is maintained by the payment card industry and is the set of standards and protocols that every business, merchant, or service provider must follow if they accept private payment card data obtained from customers at a point of sale. This includes credit cards, debit cards, pre-paid cards, e-purses and ATMs. Having a PCI-compliant processor ensures that the processor is not only liable, but additionally responsible, for all credit card data storage — meaning that liability does not fall on the business should the credit card information leak or be stolen. If a merchant does not use an online payment processor that is PCI Compliant, he or she must achieve PCI DSS certification on his or her own.

- **A Fraud Network**: Sophisticated online payment processors use a fraud network that monitors the connections between consumers, merchants, issuing banks, and credit card associations. Being able to supervise these networks allows for a greater degree of supervision and troubleshooting. If an unknown party or "bad actor" attempts a fraudulent transaction, an online payment processor can check these transactions against the network of known parties to discover red flags and inconsistencies.

- **Advanced Identification Technology**: Fraudulent parties use new technologies to mask their location and identification. One way to identify a fraudulent transaction before it occurs is to use identification technology that can decrypt the source of the party making the transaction. An online payment processor that can actively provide this transparency will have greater access to information of the devices used to commit fraud. It will also chart the specific devices involved in previous attempts of fraudulent transactions, keeping a running tally of what technology and devices were used in attempted fraud.

III. Costs

Does it charge hidden fees?

All processors charge a small (generally single digit) percentage of each transaction fulfilled by them; this is formally called a merchant discount rate. The exact rate varies depending upon risk and the number of downgrades associated with the merchant's account. Additionally, most processors charge a transaction fee (generally less than $.50 USD), as well as a cross border fee (an additional charge for transactions that occur in countries outside from the one in which the merchant's business operates). Processors will usually charge a higher discount rate and per-transaction fee for merchants who aren't located in their home country. However, not all processor's pricing strategies are quite that simple: many providers include an assortment of additional or hidden fees, including set up fees, monthly maintenance fees, and PCI-compliance charges.

Merchants shouldn't base their decisions off advertised pricing when comparing online payment processors. Instead, curious online businesses should contact the sales team of processors and ask about all fees — not just the ones listed publicly. Spreadsheets can help estimate the true monthly cost of an online payment processor; small, hidden fees can add up quickly!

Here are three common costs that an online payment processor usually charges:

Transaction Fees

Every payment processor charges a merchant a transaction rate and individual transaction processing fees, which can either be flat fees or are determined by such factors as personal and business risk, the percentage of card-absent sales, average dollar per sale, and monthly sales dollars. Here are some examples of the types of rates a merchant should be most familiar with (online sales generally fall under the non-qualified rate):

- **Qualified Rate**: This is the rate charged when a card is accepted and processed using an approved solution. This is also the rate that most processors will initially quote — the lowest rate.

- **Mid-Qualified Rate:** This is the fee charged when a card is accepted and processed at a higher rate. For example, a mid-qualified rate may be applied when a card must be keyed in (rather than swiped).

- **Non-Qualified Rate:** This is the "online processing" rate. If information is missing, or if the authorization does not clear within 48 hours, this rate likely rises.

* A downgrade refers to situations in which rates go up due to poor transaction quality, which may include missing information, declines, and chargebacks.

Operational Costs

Most processors will charge standard set-up fees, which include such services as software installation along with application fees. These costs depend on current functionalities and the need for payment terminals. Outside of initial set-up, ask the following questions to the potential processor to help further understand long-term costs.

- What are the monthly fees?
- What is the monthly (sales) minimum?
- Are there any cancellation or contract fees?
- What are the non-qualified rates?

Hidden Fees

As discussed above, hidden fees can cost online merchants thousands of dollars (or more) over time. There are several other fees and charges hidden in processor rates and pricing. In fact, watch for the word "bundle," which means multiple fees are lumped under one cost or rate. The following three examples present fees that are generally bundled into one rate. The more an online business can itemize the processor's rate, the more likely that business can pay exclusively for what it needs without overpaying for extras that do not apply to the business.

- **Interchange Fee**: Online transactions processed through the credit card interchange are charged at a non-qualified rate. You can ask to pay the interchange fee as it is incurred, which may prevent you from overpaying — and also help keep track of transaction costs.

- **Chargeback Fee:** These fees are incurred when a customer disputes a transaction and the money is then returned to the acquiring bank. Not only can a business lose the entire sale, but "timeliness" fees add up if it is not resolved quickly. Know how your provider handles chargeback costs and if there are fees or penalties for multiple chargebacks.

- **Communications Fee:** This fee covers the cost of moving the transaction from merchant to processor.

- **Fraud Fee**: This fee is charged to compensate the processor for its technology and efforts to protect the online merchant from fraud and malicious attacks.

IV. # Efficiency

Does it offer additional helpful features?

A quality online payment processor's responsibility extends far beyond simply handling merchants' payments and transactions. Most processors also act as the digital "warehouse" for all the data relating to sales, billing, and customers' personal and financial information — all of which should be accessible to merchants at any time, from any place. A processor should provide more than just a set of software, but also serve as a business partner; it should be able to fill the roles of a day-to-day relationship manager or a strategic marketing guide. Online payment processors that take a partnership-like approach will often be willing to work intimately alongside merchants on the phone or other direct communication means; these types of partners understand that what benefits merchants benefits everyone, processor and buyer included.

The following four services should be found in the best online payment processors:

- **Recurring Billing:** Also known as re-billing, reccurring billing is a processor's capability to set up a system to automatically input information. There are two examples of this, and both save customers' time and reduce errors over the long run. One: a processor can set up reccurring payments for customers who have repeat orders, which typically means a subscription service. Two: a processor can immediately process transactions with repeat customers without re-entering payment and personal information (as in one-click checkout systems).

- **Daily Payout:** Several processors provide merchants with the capability to receive funds on a daily payout schedule, compared to a weekly, biweekly, or even monthly basis. This allows merchants faster access to revenue so they can fulfill orders more efficiently. Often, there is a set a waiting period between when the transaction is authorized and when it is eligible for payout to the merchant.

- **Merchant Support:** Providers with live troubleshooting or customer service will offer the most value; this is especially important for businesses that address a global audience located in multiple time zones. Merchant support services solve common issues such as chargeback resolutions, risk management and monitoring, and processing errors. Customer care should be available via multiple touch points, including email, phone, live chat, and ticket. Some processors even offer buyers a means of support to answer questions or queries about merchants they may have bought from. Another consideration is whether or not the processor can provide a backup server, a component that ensures that business will run smoothly all day, every day even if a system crashes or is hacked.

- **Data Access**: Most processors offer real-time access to all data. Some companies refer to this as "real-time reporting," which means the merchant is able to acquire any type of information — financial or otherwise — at any time, from any internet-connected device. Not only does this include having access to reports and information, but also having the ability to follow the merchant's business and sales performance with metrics that chart performance over long periods of time.

V. Global Reach

Does it help you reach international markets?

The Internet has no borders; anyone in the world can buy anything from nearly anywhere when it comes to e-commerce. If there's even a small chance that a merchant would like to sell outside its home country at some point in the future, it's important to select a provider that both enables and encourages its sellers to expand internationally.

For this reason, processors should accept business in all major currencies—not just the first three monies that are most commonly used. Advanced providers use sophisticated geolocation technology to detect where sales are coming from and, in some cases, immediately update the payment processing page to reflect the native currency and language of the buyer. A processor should also have the resources to properly calculate the most current exchange rate between currencies.

The following three international processor features are necessary to operate on an international business level:

- **Automatic Exchange Rate Calculation**: For companies that plan to sell internationally, a processor that can calculate the current exchange rate as it "moves" through the transaction — from the buyer's country to the seller's country — offers a localized experience for the buyer that can drastically improve conversions. Additionally, an excellent option to look for when choosing a processor is dynamic currency conversion (DCC). This service converts the cost of a transaction into a cardholder's local currency when making a payment in a foreign currency.

- **Local Payment Processing & Local Translation:** Ideal International processors offer payment options in a variety of currencies, staying up to date on local payment options as they gain traction and popularity. Equally important is the ability to allow customers to choose which language they would like to transact in. Allowing customers to transact in their native languages reduces friction and frustration, leading to lower shopping cart abandonment levels and higher conversion rates and sales. Advanced processors usually offer more than 10 different languages and accept payments from nearly 150 counties.

- **Geolocation:** There are now cloud-based technologies available that enable providers to automatically detect from which country the customer is buying. Geolocation is a service that uses the online visitor's real-time IP address to receive geographic information such as continent, country code, country name, region, city, postal code, metro code, area code, latitude, longitude and ISP. This information can be returned to the merchant's website within 1/20 of a second via XML or JSON format to automatically present language and currency information to customers.

About 2Checkout

Accept Payments, *Globally*

A worldwide leader in payment services, 2Checkout maximizes online sales conversions by giving global buyers localized payment options. Trusted by over 50,000 merchants, 2Checkout supports transactions in 196 countries through 8 payment methods, 26 currencies, and 15 languages, forming one of the leading processors of online transactions in the world. The service is simple to implement, including a pre-integrated payment gateway, a merchant account, PCI compliance, international fraud prevention, and plug-ins for 100 of the most popular carts.

Versatile Integration Options

2Checkout offers three optimized checkout platforms to help maximize conversions for merchants of all sizes and scopes.

- The Payment API offers complete customization and control while allowing enhanced processing power and analytics
- The Standard Hosted Checkout adapts to your customer's device, displaying checkout pages while maintaining brand settings
- The Inline Hosted Checkout provides a simple payment form that gives customers the appearance that they are still on your site while providing all the benefits of a hosted checkout solution
- Instant Onboarding provides instant access to accept payments in minutes
- Select from over 100 carts and online partners
- Try out the 2Checkout Product Demo

A Worldwide Leader in Security and Fraud Prevention

2Checkout wields an array of state-of-the-art tools that stops fraud before it starts.

- Our fraud network employs a patent-pending technology that connects consumers, merchants, issuing banks, and credit card associations in an online network of trusted relationships
- 2Checkout currently detect 600 million devices using a unique, patented tagless device identification technology
- Patented link analysis tools correlate seemingly-unrelated events that other solutions might miss
- PCI Compliance removes the burden from the merchant as 2Checkout handles all buyer payment data on its own servers

Transparent & Simple Pricing

2Checkout avoids hidden fees to provide merchants with the most value for lowest prices.

- Set transaction rates and fees
- Volume discounts for merchants who process more than $50,000 a month

Comprehensive Merchant Support

2Checkout isn't jut a processor: it's a partner. Customer support and robust features help online merchants do more than process payments online.

- Multilingual merchant support via phone, online chat, email, and ticket
- A full suite of analytics software and metrics in the vendor administration area
- Recurring and one-time billing options to minimize busy work
- No waiting with daily payouts

Reach Your Market, Wherever It May Be

No matter where you want to sell, 2Checkout will help you get there.

- Transactions supported in over 200 countries
- 8 payment methods supported through 26 currencies
- Geolocation automatically translates currencies with 15 languages with more options arriving this year!

<u>Connect with 2Checkout and learn more about how our services can enable you to implement these principles.</u>

Contact Our Sales Team:

Toll Free: 1.877.294.0273

International: 1.614.921.2450

United Kingdom: +44 (0) 808 234 0487

<u>Sign Up for a **Free** 2Checkout Account Today</u>

connect