Payment Processing for Your Small Business

Credit Card Processing Overview

You run your customer's credit card → The customer's bank approves the transaction → You settle your credit card batch → Your processor approves the batch and debits the customer's bank → The processor sends funds to your bank → You get paid!
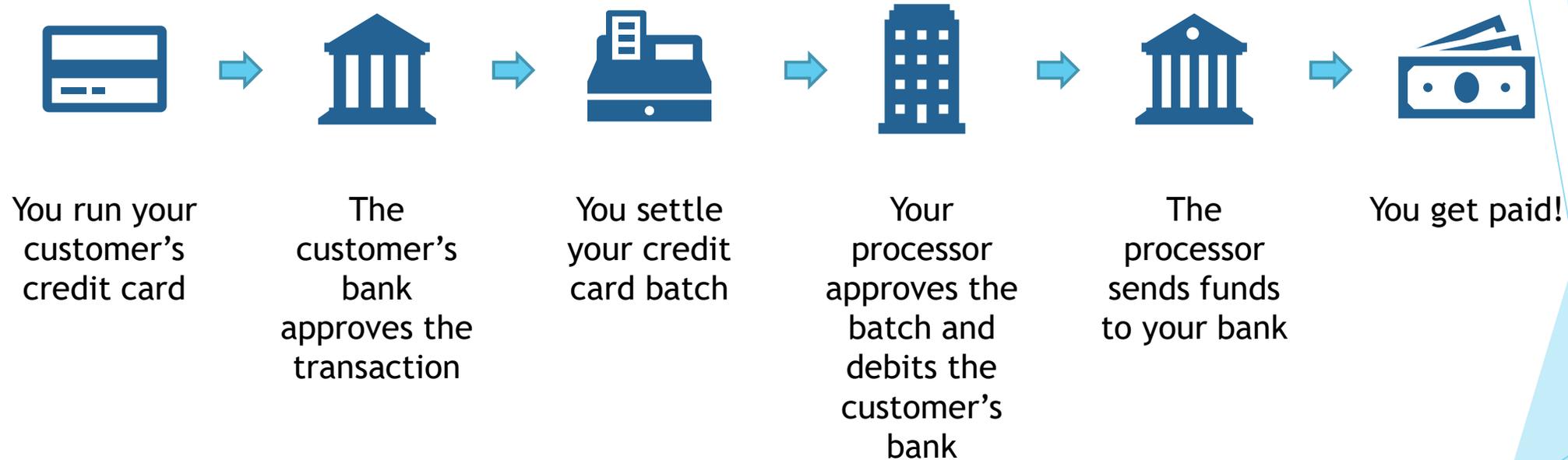
Credit Card Payment Statistics

Most small businesses are accepting credit cards, and with good reason. Consider these stats:

A study by payment processor TSYS in 2018 found that **80%** of people prefer to pay with either a credit or debit card. Only 14% said they prefer to pay with cash. These preferences apply to all age groups and household income levels.

Source: TSYS Consumer Payment Study 2018

While alternative payment methods like PayPal are growing, according to NFIB, consumers still use credit cards for over **90%** of online sales.

Source: NFIB: Top 10 Benefits of Accepting Credit Cards

More reasons to accept cards:

▶ **Improve cash flow**

  Stop worrying about bad checks and large cash deposits. With credit cards, your payment provider automatically deposits sales into your account.

▶ **Increase trust**

  Seeing the major credit card brands' logos in your window or on your site helps customers feel secure shopping with you.

▶ **Convenience**

  With increasing numbers of customers no longer carrying cash, accepting credit cards means fast, easy payments.

▶ **Bigger transactions and more impulse buys**

  Studies show that customers spend more when shopping with a credit card. They're more likely to indulge in impulse buys, and they even tip more!

Benefits of Payment Processors

Credit Card Acceptance

- ▶ The biggest benefit of working with a processor is the ability to take credit card payments. Processors also offer additional payment methods such as PIN debit, EBT, FSA/HSA, and gift cards.

Help setting up a processing solution

- ▶ This might be a credit card terminal, software that you download, or simply an app with a device that plugs into your phone. Your new processor will help you select the option that works best for your business.

Customer support

- ▶ Processors often offer 24/7 support in case you need help with your equipment, processing statement, etc.

Integration options

- ▶ Many processors work with VARs (Value Added Resellers) to offer software integrations. These integrations have all kinds of benefits, especially for merchants in specialized markets like restaurants, healthcare, and eCommerce.

Benefits of Payment Processors

Insight into the latest trends, updated technology, and regulations

▶ It's in your processor's best interest to stay up-to-date on the latest trends in payments and financial technology. For example, while digital wallets still aren't as popular in the U.S. as they are in other countries, you might want to be able to offer them at some point, and your processor can help. Also, processors follow governmental regulations that have to do with the financial industry, and can help you stay on top of what you need to know.

PCI (Payment Card Industry) protection

▶ Security is a major concern for small businesses, which may be more vulnerable to a breach and less able to cover card replacement costs and other fines. In fact, 60% of small companies that experience a data breach or cyber attack fail within 6 months. Your processor can help you ensure PCI compliance and avoid this outcome.

Fraud prevention

▶ Processors can help you do everything you can to keep your customers safe and prevent fraud.

What to Consider When Selecting a Processor

Contracts

▶ Make sure you understand the terms of your contract when you sign up. Some processors offer month-to-month options or no contract, while others require you to sign on for a certain timeframe. Find out about penalties for ending a contract early, which may include a hefty early termination fee.

Fees

▶ In addition to a possible early termination charge, your processor might charge other fees you aren't expecting. Before signing up, ask what fees you'll see on your statement. Some common fees include:

  ▶ Gateway fees (for accessing your processor's payment network)
  ▶ Statement fees
  ▶ Monthly minimum (a fee charged if your processing falls below a certain amount)
  ▶ Discount rate and/or per-transaction fee (see Pricing section below)
  ▶ Authorization fee

Pricing

▶ Ask about how processing fees work and how they appear on your statement. There are generally a few different pricing models to consider.

  ▶ Some processors offer flat-rate pricing where you pay a set monthly amount. Your rate usually depends on the amount you plan to process each month. Be aware of extra charges if you go over your predicted volume.

  ▶ One of the most transparent fee structures is "pass through," where the fees from credit card brands (Visa, Mastercard, Discover, and American Express) are passed directly to you. Any markup from your processor is shown separately on the statement.

  ▶ Your processor might charge a percentage of each transaction, a set amount per transaction, or both.

Can you charge a minimum amount/pass fees to customers?

Processing fees are one of the biggest concerns among small business owners who want to accept credit cards. You might be wondering about charging a minimum amount for credit card transactions or passing some of the fees to your customers.

You can charge a minimum of up to $10 for credit card purchases. The amount has to be the same for all cards, so you can't have a higher minimum purchase for, say, American Express.
Source: H.R. 4173 pg. 698

Credit card surcharges, where you pass processing fees to your customers, are allowed in certain states. This practice is currently not allowed in 10 states, and there are specific rules for surcharging. If you decide to proceed, your processor can help you ensure you're following the rules.
Source: creditcards.com

Processing Options

Traditional Merchant Processing

▶ Requires a merchant account, though there may or may not be a set contract

▶ Provide the best customer service

▶ Offer specific solutions for small businesses

▶ Examples:

  ▶ BluePay

  ▶ Helcim

  ▶ TSYS

  ▶ FirstData

Payment Service Providers

▶ Usually pay-as-you-go or month-to-month

▶ Faster, easier setup

▶ Some are specific to eCommerce businesses, while others offer face-to-face processing as well

▶ Examples:

  ▶ Square

  ▶ PayPal

  ▶ Shopify

  ▶ QuickBooks Payments

Learn More

- [Merchant Maverick's list of their top payment processing picks for small businesses](#)

- [Fitsmallbusiness.com's writeup on Square vs. PayPal processing](#)

- [Entrepreneurs beware: advice on transparency in processing fees, from Forbes](#)

- [WalletHub's detailed guide to the credit card acceptance process](#)