

All About Merchant Accounts

By Michele Masterson

Associate Editor, E-Commerce Guide

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Contributing Author

Whether you're Books-A Hundred or Books-A Million, if you're serious about selling on the Web you need to be able to accept payments from your customers. While there are many different payment methods, the most popular include accepting credit cards and in order to do so you'll need to set up a merchant account.

Setting Up An Account

Merchant accounts are accounts that accept and hold credit card transaction monies. These accounts can be established through merchant service providers (MSPs) such as banks or via independent service organizations (ISOs). See ECG's Payment Solutions resource section for more information. Banks are generally viewed as secure and reliable, but are generally more selective when deciding for whom they will open a merchant account. ISOs tend to be more flexible but are willing to accept more risk, since they are neither monitored nor regulated. However, they charge a premium for accepting the risk associated with your business, so be prepared to pay more.

A merchant account for online business is similar to a merchant account for mail order business; the risk is associated with the fact that you don't have the physical credit card to scan. It used to be that banks were reluctant to open merchant accounts with businesses that hadn't been in operation for at least two years with all sorts of other stipulations, but today, most banks will open merchant accounts even for new businesses, if they have a history with you. If you haven't been in business for two years, talk to your personal banker -- where you have your own checking and savings or mortgage accounts -- to see if they can give you a merchant account. If you've been in business for two years, go directly to your business banker and apply with him. Don't contact ISOs until your bank has turned you down, because the fees are higher in the beginning, and for the life of the account.

When you apply for a merchant account, you'll need to supply the bank with the average order size and the average monthly amount that you expect to be running through the account. Estimate conservatively. You may be asked to keep a percentage (or even a full month's estimated order total) in an account to cover fraud. If you round up to impress the banker, you're going to end up paying more in tied-up capital. Tell him what you expect to be processing the first or second month. If by the sixth month you've far exceeded that amount, he'll find you to discuss increasing your reserve, but you've got your account, and you've got a thriving business.

What You Need

In addition to procuring a merchant account for credit-card acceptances, e-tailers also need an order form on their sites. The form can be built using HTML, and can be set to use a CGI script

(written in a language like ASP, ColdFusion, PERL, server-side Java, etc.). Preferably the form should be encrypted using SSL (Secure Sockets Layer). Your ISP, hosting company, or WPP can set you up with SSL for a small fee. You also need a certificate from an organization like VeriSign. This will cost you about \$349 (in the U.S.). The ordering page is then placed on a secure server.

You will also need payment-processing software to handle transactions between you and your bank. The software is more of a service than a product and information sits on that company's server rather than yours. Options include buying or leasing software on a monthly basis which can average between \$20-\$30. There are many companies to choose from; some of the best known are Authorize.net and Cybercash.

How It Works

Once a relationship with a merchant account provider or acquiring financial institution is set up, the institution then deposits daily credit card sales into the merchant's account after deducting certain fees. Some financial intuitions also conduct merchant services, either in-house or out-sourced to third parties. Such services include customer service, billing, authorization, reporting and settlement services. Third-party companies offering these merchants services include First Data Corp., Global Payment Systems and Nova Information Systems. More information can be found in E-Commerce Guide's article, [Accepting Credit Card Payments](#).

What Kind of Authorization Process Do You Need?

E-tailers need to anticipate how many transactions will occur on their site. There are two types of authorization processing: batching and real-time. Batching, used frequently by smaller merchants, is done by hand offline. Once customers, through phone calls, faxes, or online forms, send orders they are processed manually. This can be accomplished through several methods such as swiping through a terminal or using PC-based authorization and settlement software. Since fraud is such a problem online, and because small merchants are least able to bear the cost of fraud, small merchants should consider batching payments, taking steps to guard against fraud, before assuming they need real-time processing.

By contrast, real-time authorization provides credit card purchases to be approved or declined immediately. Some e-tail sites use this method to try to save time and money through automating the process, but many sites, especially smaller ones, don't need real-time authorization and its added expense. Wait until you see large volumes of inventory or products ordered electronically (such as content or software downloads), before investing in this solution. It sounds like less trouble, but it requires constant monitoring because any downtime in the payment processing is time during which you can't accept orders! You must determine your needs along with your customers. If done properly, a customer won't even know whether their payment is being processed in real-time. As long as you give your customer an order number on the thank you page, they will think their order has been processed. You have every right to *begin* the fraud/credit limit check at that point. Customers aren't entitled to your products until they've proven they can pay for them.

Merchant Account Costs

E-tailers also need to determine which merchant account provider fees will work for their

businesses and which could kill them. There are various fees that merchant account providers charge e-tailers, and many vary significantly. Merchants should figure out if the fees charged will outweigh potential profits. Common fees include:

Discount rates: the percentage of bankcard sale amounts that the acquiring financial institution charges merchants for transaction settlements. This depends on the average order size that you quote the bank. A larger order size will usually result in a smaller discount rate. Generally about 2-3 percent.

Interchange fee: amount that merchant's acquiring financial institution pays consumer's issuing financial institution for every credit card transaction settled. Transaction fees can vary from a low of 25 cents to a high of 70 cents per charge. Discounters selling lots of low-cost products could get killed in transaction fees.

Equipment and Installation: these costs include hardware/software, set-up and programming. If you're purchasing an e-commerce solution from your Web hosting company, you may be able to avoid these costs altogether, or they may be bundled into your hosting fees.

Monthly Fees: also includes minimum fees, may cover total charges, statements, and excess usage.

Reserve Costs: some banks hold back a percentage of merchant transactions to cover contested charges. Chargeback fees can also be charged when disputes are settled in favor of credit card holder. Fraud often takes the form of disputed charges, which, in the U.S., are almost universally settled in favor of the cardholder. This means that in addition to losing the amount of the sale -- after the product has been shipped -- the merchant loses the \$20-50 that the bank charges in chargeback fees. Also, if the merchant has too many chargebacks, he's at risk of losing his merchant account. Merchants who think they're going to set up shop without a customer service phone number will likely lose more than the cost savings of no 800# in chargebacks. High chargebacks also result in an increased reserve requirement. Begging your banker to let you keep your merchant account is much worse than begging to get him to give you one.

The good news is that depending on your provider, these fees can greatly differ, and most can be negotiated. E-tailers need to do research compare rates and services, apply these to their specific costs, and then make an informed decisions. Many merchant account providers offer cost information on their sites; another great resource is [MerchantWorkz](#), which lists providers, fees and services, offers a rates comparison chart and lists international providers. Provided you do your homework and shop around, you should be able to offer your customers the ease of credit card payments without adversely impacting your business.

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