

'De-Coding' Merchant Accounts

Almost everyone has paid for something at the store, or online, using a credit or debit card. Have you ever wondered how it all works on the other end; what happens after you submit your information to a merchant? More importantly, do you understand enough of the process to be comfortable enough to start up a merchant account of your own, so you can process payments effectively and efficiently?

Merchant processing as it applies to the eCommerce world is somewhat different in scope compared to "Card Present" sales in a retail environment. This article is an introduction on **eCommerce Merchant Accounts** and will cover the basics required to establish and operate a Merchant Account in an eCommerce environment.

If you already have a Retail account and terminal for card present sales, keying in eCommerce sales will almost certainly raise your *Interchange Percentage* to the highest rate for those transactions. **Interchange Percentage** is the cost levied by Visa/MC for these transactions, based on the account type, whether or not the card is present, and the type of card being used.

In addition, manually keying in eCommerce sales will increase instances of fraud due to the lack of adequate address and IP verification. It is important to understand how you can protect yourself and your customers from fraudulent transactions, while keeping your rates reasonable.

ECommerce Merchant Processing has four basic elements:

1. Host

The host is your eCommerce Provider (Yahoo! Store, OSCommerce, ZenCart, ProStores, etc.) The host provides the back-end management tools and shopping cart required to conduct commerce and enables you to setup secure credit card processing within it.

2. Payment Gateway

Visa and MasterCard require that all Credit Card commerce meet security compliance regarding the flow of credit card information from the shopping cart to the Visa/MC computers that approve or decline the transaction, and provide the **address verification response (AVS)** that helps a merchant determine if the order is suspect or legitimate.

A *Payment Gateway* provides this secure transport and also provides an internal virtual terminal for manual transactions outside of the shopping cart. Additionally, the gateway will offer many reporting features and fraud tools for the merchant.

The Payment Gateway will approve, charge, and batch your credit card orders. In addition, if you do recurring billing or subscriptions, most can provide this feature as well; sometimes there is an additional charge, so be sure to check if you plan to offer this type of payment options to your clients.

Two well-known gateway providers are **USAePay** – <http://www.usaepay.com> and **Authorize.net** – <http://www.authorize.net>. In most cases, the Merchant Professional who establishes your eCommerce Merchant Account will also provide the Payment Gateway. Costs for Gateway services average \$20-\$25 per month with small transaction fees, in addition to the monthly cost normally averaging 5 cents.

3. *Platform*

The platform is the specific data communication “channel” that is used to communicate the secure commerce results transmitted to and from the Payment Gateway from Visa/MC. All credit card traffic uses a platform such as First Data Nashville, First Data Omaha, or others.

When establishing an eCommerce Merchant Account, you must be **certain** that you select the Platform that is compatible with your Payment Gateway. You don't want to go through all the paperwork and set-up just to find out that you are stuck in a contract and cannot collect customer payments.

4. *Merchant Bank*

The Merchant Bank is contracted with Visa/MasterCard and provides the relationship and card processing ability to Merchants.

Merchant Banks also provide means to accept other cards such as American Express and Discover, JCB, and others. These relationships with non Visa/MC cards are known as “**entitlements**”, and these cards are processed and deposited into your designated deposit account in the same manner as Visa/MC.

The Merchant Bank establishes the percentage you will pay for the processing of each order and other fees related to the account.

In a ‘*card not present environment*,’ there is a greater risk for fraud and returns; therefore card not present accounts (eCommerce and Telephone/Mail Order) bear higher **interchange costs** than a comparable card present, retail account.

When you apply for a merchant account, the Merchant Bank goes through an application process to verify your identity, completes a credit check, and also completes a review of your website to make sure that your items/services meet their guidelines for approval and that you have an adequate Privacy and Return Policy. The process can be quite confusing, as well as time-consuming.

It is very important to have a relationship with a Merchant Bank that is knowledgeable in eCommerce, and the unique needs of Internet Merchants; otherwise you may find yourself without the ability to process payments or possibly with funds being frozen or withheld.

Most banks are not knowledgeable in eCommerce, and the practice of simply using your local bank may not be the best decision. The world of eCommerce is simply different than a regular retail outlet, so it is worth the time it takes to find someone who understands these obstacles and who can assist you in making the best choices possible for your business.

The Merchant Bank also provides a statement of charges each month (*Merchant Account Statement*) incurred from your sales and will list all transactions, returns, and interchange increases based on card type. It is important to review this as soon as it arrives each month, and reconcile it with your bank statement and accounting program.

This covers the basics of the eCommerce Merchant Processing environment. In the next article we will cover Merchant Account Pricing, Merchant Risk Management, Fraud, and Fighting Merchant Charge Backs.

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Editors Note:

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Questions about this article or other areas in regard to eCommerce or Merchant Services are welcome and we will do our best to cover as much as possible.