



WHITE PAPER

7 Common Mistakes When Selecting a Payment Processor:

How to Choose the Right Payment
Processor for Your Business



Introduction

Congratulations – you’ve selected a top-notch e-commerce website solution.

But you’re not done yet. In fact, the next choice you make will be one of the most important in the process of setting up your store: You’re about to decide how you’ll get paid. That means you’ll need to select a payment processor.

If you’ve already begun researching how to accept credit cards and other payment methods, you know that options abound. That’s good – in the sense that vendor competition tends to generate a wide range of features, benefits, and prices for businesses like yours. But it can also be bad; there’s a lot of fine print to wade through. It can be confusing to compare options as you strive to choose the right solutions for your business.

Facing the challenge of turning a profit as quickly as possible, many online retailers make it their top priority to process payments at the lowest possible cost. That’s probably one of your goals, too – and you may be tempted just to choose the payment processor with the lowest advertised rate.

This strategy makes sense on the surface – but unfortunately, it’s just one of the many mistakes retailers can make when choosing a payment processor. Here are seven mistakes online retailers often make when selecting a payment processor, along with tips on how to choose the right one for your business.

Mistake #1: Assuming that “lowest rate” means “lowest overall cost.”

Finding the lowest rate for credit card processing seems simple enough – until you notice the asterisk, which means that there’s fine print. And once you read that fine print, you’ll probably notice clauses that dramatically increase the processing fees you’ll pay on certain types of transactions. These rate hikes won’t just cut into your margins – they can actually turn a profitable transaction into an unprofitable one.

Why is it so difficult to find the actual lowest rate? Because most credit card processing vendors charge different rates for different types of cards. In a nutshell, they offer qualified and non-qualified rates, and the rate class is determined by which card the customer uses to pay.

- **Qualified rates** are the lowest rates – often those advertised by processors.
- **Non-qualified rates** are typically much higher. Credit card processors may charge these higher rates for cards that earn customers airline miles, loyalty points, or cash-back bonuses.

You want to give your customers a wide choice of payment options, so that you can keep them happy and make more sales. Loyalty cards and business cards are quite popular, and many of your sales are likely to be made with non-qualified credit cards. As a result, the actual transaction fees you pay the processor may end up being higher than the advertised rate.

So how can you control your total processing fees? One approach would be to track the breakdown in your customers’ card usage, and then project your estimated processing fees over the months to come. That calculation will give you an idea of the effective rate that you actually pay. You may find that you’re actually paying much more than you thought.

You'll also have to keep an eye on other hidden fees credit card processors may charge, including monthly, setup, cancellation, refund, withdrawal, and batch-processing fees. Like non-qualified card fees, these extra charges are often out of your control. Depending on your monthly sales volume, you could see a significant spike in total payment processing costs.

What to do? Rather than looking for a vendor that caters to your mix of cards, consider working with a payment processor that offers flat-rate processing with no hidden fees. PayPal charges a flat-rate pricing for all credit cards, qualified or not. This flat-rate structure may save you money and worry at a time when use of non-qualified credit cards continues to be popular with consumers.

Another difference: PayPal doesn't charge add-on fees that many other vendors levy for cancellation, withdrawals, and batch processing. In fact, you can get started with PayPal Payments Standard without paying a monthly fee.

Mistake #2: Losing fast access to your money.

We've all heard the horror stories: An online merchant launches a business and begins making sales. Everything seems to be working fine – but then the payment processor suddenly informs the merchant that her account will be frozen for several weeks due to the need to investigate suspicious activity. Meanwhile, the merchant's bills begin to pile up... and she has no way of paying them without her account funds.

In another common scenario, an online merchant is unaware that his payment processor has a policy of holding all funds received for several business days. When a customer's payment goes through, he has to ship to that customer – despite the fact that he won't actually see the money in his account until days later.

In the earliest days of online payments, such holds weren't uncommon. But today you have little to worry about; payment processors shouldn't simply freeze merchant funds without good reason. And it's generally easy to work with your processor to clear valid sales that may trigger fraud protection monitoring, such as irregular transactions, international sales, or sudden spikes in sales volume.

Still, if you're anxious about access, consider using PayPal as your payment processor. Once an order is complete, your money typically shows up in your PayPal account within a few minutes. From there, you can transfer it directly to your bank account.

Mistake #3: Getting stuck with responsibility for data security.

High processing fees aren't the only thing that can unfairly cut into your profits. Today, one of the biggest concerns for online merchants is fraud.

Getting victimized just once by online fraudsters can cost you thousands of dollars. But putting your own fraud-control measures in place can be time consuming and expensive. Instead, you need to choose a payment gateway backed by a secure, reliable payment processor. As you evaluate vendors, look for those offering services that can help protect you from fraud. For example, PayPal provides robust fraud protection services:

- **Fraud filters.** Automatically screen every transaction based on settings you define. PayPal will deny high-risk transactions, hold them for your approval, or approve them while flagging them for your attention.
- **Security and privacy.** Your customers' financial information is stored and encrypted on PayPal's secure servers, not yours.

Mistake #4: Not getting protection against unscrupulous buyers.

The vast majority of people who purchase your products and services online are merely looking for a good deal delivered through the convenience of your store. But there will always be a few who try to get something for nothing. At some point, you may receive an unauthorized payment from a hacked credit card account. Or you might receive a payment, ship an item – and then get a complaint from the customer claiming that the package never arrived.

In the first case, you could choose to absorb the cost of refunding the unauthorized payment. In the second, you could simply ship a duplicate item to your customer. Many merchants consider these expenses simply a part of the cost of doing business.

But over time, fraudulent transactions can really add up. Rather than simply writing off their cost, consider working with a vendor that helps protect you from the sting of fraudulent transactions in the first place. For example, if you're sent an unauthorized payment or a buyer claims to have never received an item, PayPal Seller Protection is available for eligible payments from buyers in any country. Seller Protection is available for eligible US sellers and covers physical, tangible items that are shipped for the full transaction amount.

Mistake #5: Not thinking about ease of setup or support availability.

You started an online business to make money, not to play with technology. Setting up payment processing is a task that requires some technical knowledge. Tackle the job yourself without the necessary tech skills, and you run the risks of frustration, lost time – and lost customers.

It's a much better idea to look for a payment processor that offers a one-stop solution with around-the-clock support. And once you're live on PayPal, you'll receive 24/7 technical support for any payment-related problems.

Mistake #6: Tackling PCI compliance by yourself.

It's all too easy to begin accepting credit card payments without thinking about how you'll store the payment data. But payment and cardholder data isn't something to take lightly – especially with the PCI Data Security Standard, or PCI DSS, in place.

PCI DSS is a U.S. payments industry standard that lays out rules for preventing, detecting, and reacting to security incidents. Many online merchants respond to its demands by spending time and money developing and implementing strong payment card data security processes. But you may help reduce PCI compliance by working with a payment processor, such as PayPal.

Mistake #7: Not giving customers a full range of payment options.

Today's customers expect choices. The more payment options you offer, the better your chances of capturing a sale. Some consumers remain reluctant to use credit cards online despite secure payment processing protocols, while others will abandon their shopping carts if a preferred payment option is not available. Offering several trustworthy payment options in addition to credit cards helps you attract more customers and can reduce cart abandonment. The bottom line? You increase sales.

For example, adding PayPal Express Checkout to your site helps you and your customers in several ways. Customers trust the convenience and security of paying with PayPal. And PayPal Express Checkout lets customers pay with just a few clicks, without sharing their financial information or entering shipping information.

You benefit by becoming more attractive to the 148 million shoppers worldwide who actively use their PayPal accounts. And adding the PayPal button to your shopping cart requires just a few clicks.

Conclusion

Choosing the best way to accept credit cards and other payment methods is vital to your business. The challenge is making the right choice of payment processor. Many options are available, but it is easy to be confused by the multitude of details hidden in the fine print.

Merchants like you who choose the best in e-commerce website solutions should be equally discerning about their payment processor. PayPal has a full range of payment solutions to meet your volume demands, technical needs, and budget. For more information about how PayPal can fit into your business, please visit <https://www.paypal.com/> .