

Handling Online Payments

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If your business sells its products or services online, it goes without saying that your online payment system must work flawlessly. If not, your credibility will vanish in a heartbeat. Your system must be easy to use and unfailingly secure. Consumers won't tolerate a long, cumbersome purchasing process, and they not only expect that process will be safe; they demand it. Remember that:

- Consumers may be wary of divulging credit card details and other personal information online. Your first step must be to gain their trust.
- Fraud and chargebacks are critical concerns that can seriously affect an online business.
- A wide range of online payment services are available, so shop around to make sure you get the best one for you.

What You Need to Know

How do most people pay on the Internet?

For consumer purchases, it is the credit card, hands down. In the U.S., an estimated 90+ percent of all online payments are made by credit cards. In Europe, notably, the figure is an estimated 70 percent. For most business-to-business transactions, payment is usually made offline. New forms of payment are emerging, such as prepaid accounts.

What's the typical payment process?

The typical online payment system is a six-step process. Here's how it works:

- Customers visit your site any time, day or night; "normal" business hours are "24/7."
- They view products and scan brief descriptions.
- They select products and put them into an electronic shopping cart.
- Customers select available payment options, ideally in their own currency.
- Online payment is handled securely, probably by a specialist payment processor.
- Payment is approved and confirmed both to you as seller and to the customer.
- Purchases are delivered to the customer via a designated carrier service.

What are the key problems with online payments?

Fraud is far and away the top concern. It's estimated that fraud costs an online business three times as much as a traditional business, so any problems must be addressed comprehensively. There are other matters to reckon with; for example:

- There is no cross-border integration of payment systems.
- People develop payment habits and are reluctant to change them.
- It's yet to be determined if traditional payment methods can adapt to the online environment or if a brand new payment system is required.
- There is still no comprehensive hard data on how people pay online.

What is meant by the term “payment culture?”

Within any given country, and sometimes within states or regions of a country, there are distinct approaches to payment, depending on:

- The range of payment options available locally
- Local payment habits and practices
- Local or national regulations that govern payment

Any online venture needs to be aware of a prevailing “payment culture,” as it's called. An online business should never assume customers automatically have credit cards in hand, especially if its business plan includes foreign sales representing a significant percentage of total revenues.

What to Do

Understand the Payment Culture and Related Payment Options

First, anticipate that your buyers—especially those outside the U.S.—may want to pay for goods and services in different ways, depending on the prevailing payment culture and any statutory restrictions. Second, you'll need to understand and decide whether to accommodate the range of payment options that a Web site can use. They include:

- Credit or debit card payment
- Credit transfer and electronic checks
- Direct debit

- Smart cards
- Prepaid plans
- Loyalty plan and points-based approaches
- Person-to-person payments

The option(s) you choose to accept will depend on your target market. For example, if a Web site targets young people who often have no credit cards, a prepaid plan can work well. A particular Web site may want to use a variety of payment approaches, depending on its situation. Whatever the choices, being able to process major credit and debit cards is almost always essential.

Know the Basics

An online payment system should have these minimal key characteristics:

- *Efficient and easy to use.* A key advantage of doing business online is that it saves time and cuts costs.
- *Robust and reliable.* Because payment is such a critical function, payment systems have to be fully reliable. They can't be out of action for any length of time.
- *Verification.* Much online fraud is caused by the absence of proper verification.
- *Integration.* A payment system must be able to integrate properly with relevant internal information systems; so, for example, a record of the payment can be added to the account details.
- *Insurable.* Facilities such as escrow services must be available to ensure that the seller gets the money and the buyer gets the goods.

Choose the Best Online Payment Service for You

Finding the most suitable type of online payment service will depend on the volume of business you envision and the margins each sale generates. There is a wide choice of services, so it is important to shop around to find the best one. However, be certain the service you choose can verify the credit card, process the transaction, and deposit the money in your bank account.

Key factors to consider include: set-up fees, ongoing charges, and software and hardware expenses. Most banks offer some form of online payment service and can be good choices. If you don't use a bank, make absolutely sure you're dealing with reputable organizations. Those that advertise extremely low base charges usually have expensive add-on fees.

An effective payment system allows customers to buy online while allowing you to manage the process efficiently. A complete payment system is fully capable of displaying products, accepting

payments and managing your business. You can also choose systems that can be integrated with existing product display and business management systems. A system should allow you to:

- Display products that customers can buy from your Web site
- Calculate any taxes due
- Calculate shipping or delivery charges
- Provide a quick, simple ordering procedure
- Provide a secure customer payment procedure
- Accept payment by credit card, debit card, or check
- Handle transactions from customers with approved accounts
- Handle payment for small and large purchases
- Accept payment in local currencies from all the countries where you have customers
- Accept payments in multiple currencies
- Protect your customers and your business against fraud
- Handle customer refunds
- Receive settlement from the payment processor
- Automate stock control
- Simplify administration and accounting
- Expand as the business grows
- Minimize the cost of handling transactions

Make Paying As Simple As Possible

There are several ways to make credit or debit card payments for Internet purchases: direct online payment, payment over the phone, or by faxing card details. The first method is by far the most popular (88 percent), but it's better to offer all options to potential consumers.

When implementing an online credit card system, a comprehensive security system using a secure server with encryption technology is essential. It is equally important to have comprehensive security procedures for storing information: A database full of confidential information about thousands of individuals is far more attractive to thieves than the chance to acquire a single credit card number.

Whatever payment system you choose, make sure to keep the process as simple and fast as possible. Studies indicate that many consumers abandon the online purchase process, often because it is too long and difficult to understand. Streamlining the purchasing process is extremely important for promoting repeat business. Amazon.com, for example, has implemented a patented (and speedy) "1-Click" purchase process for repeat customers.

Consider Offering “B-to-B” Payment

While there is a wide range of effective business-to-consumer online payment options, payments for business-to-business transactions are generally made offline, one reason being that the sums involved are usually quite large. However, a primary reason businesses embrace online B-to-B buying and join e-marketplaces in the first place is reduced costs, convenience and efficiency. Not being able to complete the payment online *adds* cost and inconvenience. Therefore, making use of the range of systems available for B-to-B payments online make sense. These systems, too, focus on ensuring security and authenticity, and some offer digital signature facilities.

Understand Online Escrow Services

Online escrow services offer to hold payments while a buyer examines the product purchased. Once a buyer is satisfied with the purchase, payment is then authorized. An online escrow service incurs the extra cost of the fee it charges, but it may be worthwhile to give buyers as much confidence as possible.

The systems used give the escrow service a tracking number for the delivery. As the seller, a business must set a period of time for the buyer to examine the merchandise; it must also establish a policy for paying any shipping fees when products are returned.

Take Fraud Seriously

Some studies estimate that e-tailers lose as much as five percent of their margin to fraud—a rate three times higher than what traditional retailers lose. For e-tailers on small margins, especially, this is a very serious dilemma. Many different types of online fraud occur, but a particularly common scheme is identity theft: Thieves acquire an individual’s confidential information and use it to purchase products. E-tailers who aren’t vigilant about uncovering fraud will see their profits eaten away. Fraud detection software is available and is a veritable must.

Chargebacks (that is, disputed payments) are another major concern. MasterCard(r), for instance, claims that while online purchases represent just four percent of total retail transactions, they account for 40 percent of all chargebacks. Credit card companies have initiated chargeback limits for e-tailers and impose penalties on those who exceed them.

Consider Using a Payment Processor

You can set up your own payment processing facilities, but it may not be practical if you handle only a small number of transactions or if your transaction requirements are complex. Payment processors can provide you with an established and proven system that can grow as your business does, and you're apt to find your bank offers this service, as do many independent specialists.

Using an external provider offers you a number of advantages: There is no need for capital investment; there are no hardware, software, and support requirements; high levels of security for your business and your customers are provided; there is a reliable operation around the clock; and services can expand as your business grows.

Understand the Different Payment Accounting Applications

The sheer complexity of the application process can discourage almost any business, particularly small- and medium-sized operations. It needn't be so! Some suppliers have simpler processes than others. For commercial and security reasons, no company can avoid initial checks but some suppliers have gone out of their way to make the application process as simple as possible. The process varies in a number of areas:

- Some independents can make their own internal risk assessment without referring to banks.
- You may not have to provide a detailed trading history.
- The proportion of successful applications varies by supplier; independents generally accept a higher proportion of applicants than banks.

Make sure you complete the application forms fully and return all essential documentation, including a customer agreement, direct debit mandate, bank details, and balance sheet.

Design a Dedicated Payment Page

Simplifying payment is an important part of the online shopping experience. A clear, easy-to-use order form allows customers to place their orders quickly. A quality form should include:

- Customer details
- Delivery requirements
- Product details
- Quantity
- Price

- Delivery charges
- Total cost
- Payment option
- Account details, if appropriate
- Procedure for submitting an order
- Acknowledgment of an order and payment approval

Check how the payment page operates and insure that any changes to the page layout reflect customer experience and feedback. Also, make sure that the page is easy to navigate and simple to complete.

What to Avoid

You're Not Clear about Payment Cultures

While credit cards may be ubiquitous in the U.S., they are not as widely used in Europe. Different countries have different payment habits and payment statutes can discourage credit card use. Not understanding these nuances is a serious obstacle to online business.

You Don't Provide Peace of Mind for the Consumer

Consumers remain very concerned that their credit card numbers will be stolen on the Internet. They remain equally concerned that the confidential information they give to a Web site will not be properly protected. Web sites that fail to show clearly the steps taken to protect customer information are likely to lose potential business and may even go out of business.

You Underestimate the Chance of Fraud

Fraud is the "800-pound gorilla" concern on the Internet and can have a serious impact on profit margins. Take it seriously!

Where to Learn More

Books:

Doyle, Valerie. Money Clicked. BookSurge Publishing, 2006.

Reuvid, Jonathan (editor). The Secure Online Business Handbook: E-Commerce, IT Functionality and Business Continuity. Kogan Page, 2005.

Web Sites:

Epaynews.com: www.epaynews.com

Mike Sachoff, "Online Payment Preferences of Young Consumers":
www.webpronews.com/topnews/2007/05/21/online-payment-preferences-of-young-consumers

Practical eCommerce: www.practicalecommerce.com