

Seven Common Mistakes Businesses Make 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. With X-Cart:

- You’ll get a downloadable open-source PHP e-commerce platform – a free lifetime license with all the necessary features to start selling online, or a powerful commercial edition aimed at boosting your sales.
- You can use X-Cart as a ready, out-of-the-box shopping cart, or as a powerful basis for a customized web shop with whatever design or functionality modifications desired. Even when heavily modified, it remains easy to upgrade.
- In addition, X-Cart is Payment Card Industry (PCI) compliant and secure. And with more than 50 payment gateway integrations, we’re mobile-ready and search engine optimization (SEO) friendly.

But your decision-making isn’t 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 that vendor competition tends to generate a wide range of features, benefits, and prices for businesses like yours. But it also can be bad because 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 7 mistakes online retailers often make when selecting a payment processor, along with tips on how to choose the right payment processor 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 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 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 you actually pay. And you may find 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.

You want to give your customers a wide choice of payment options so you can keep them happy and make more sales.

What to do? Rather than looking for a vendor that caters to your mix of cards, consider working with a payment processor like PayPal that offers one low transaction fee with no hidden costs. 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 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, the online merchant has to ship to that customer – despite the fact 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 merchants' funds without good reason. And it's generally easy to work with your payment 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 funds typically show up in your PayPal account within a few minutes. From there, you can transfer the funds 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. 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 more secure and 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.¹
- **Security and privacy.** Your customers' financial information is stored and encrypted on PayPal's secure servers, not yours, when you choose one of our hosted solutions.²

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.

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.³

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. With X-Cart's single marketplace featuring convenient and fast extensions distribution, bootstrap-based responsive design, and scalable, customizable, and upgradable features, you're on the right path to easy integration and setup for your business. And once you've integrated PayPal with your site, you'll receive 24/7 technical support for 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 global data security standard that lays out rules to ensure companies that process, store, and transmit cardholder data maintain a secure environment. Many online merchants respond to its demands by spending time and money developing and implementing strong payment card data security processes. By working with a payment processor like PayPal, you can simplify the PCI compliance process.⁴

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. 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 can 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. PayPal Express Checkout also lets customers pay with just a few clicks, without sharing their financial information or entering shipping information.

With PayPal Credit, you can give your U.S. customers access to 6 months special financing on purchases of \$99 or more,⁵ and you still get paid up front. Plus, it can help increase average order sizes by 15% or more.⁶

You benefit by becoming more attractive to the 152 million active registered accounts throughout the globe who actively use their PayPal accounts. Adding the PayPal button to your shopping cart requires just a few clicks within your X-Cart account.

Today's customers expect choices. The more payment options you offer, the better your chances of capturing a sale.

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 call 877-455-1481, or visit www.paypal.com.

For more information about X-Cart, visit www.x-cart.com.

¹ For more on information, see www.paypal.com/us/webapps/mpp/paypal-safety-and-security.

² With PayPal Payments Standard, PayPal Payments Advanced, and PayPal Express Checkout.

³ PayPal Seller Protection is available for eligible U.S. sellers and covers physical, tangible items that are shipped for the full transaction amount. See eligibility requirements: www.paypal.com/webapps/mpp/security/seller-protection.

⁴ Configurable with PayPal Payments Pro. For more information, see www.paypal.com/us/webapps/mpp/compare-business-products.

⁵ Applicable for qualifying purchases of \$99 or more if paid in full within 6 months. Customers check out with PayPal and use PayPal Credit. PayPal Credit is subject to consumer credit approval as determined by the lender, Comenity Capital Bank.

⁶ August 2013 commissioned study conducted by Forrester Consulting on behalf of PayPal titled, "The Total Economic Impact of PayPal's Bill Me Later Financing Banners." Data reflects a composite organization's online incremental sales and a 3-year, risk-adjusted return on investment, based on the organizations interviewed for the study. Note: Bill Me Later is now PayPal Credit.