Accepting Payments

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W e're continuing the series on "Launching On-line" – capturing the decisions faced and lessons learned in launching a new online ministry/business.

We think of our business as a ministry to Christian families, but it is a business, which means we need a revenue source to fund it. If your ministry primarily operates in the "real world" (e.g. a church), maybe you can get by without eCommerce, but if your ministry is entirely online, then at some point you'll probably need to figure out online payments. Our business has a number of revenue sources, but the main ones require parents to make credit card payments. This month's column will cover how we approached this challenge.

Shopping Carts and Merchant Accounts

Unlike cash, credit card payments are actually multi-party transactions. The flow of information and payments is pretty complex:

- The consumer enters their (encrypted) credit card information in a website.

- The website passes the (encrypted) information to a payment processor for authorization.

- The payment processor passes the (encrypted) information to the ministry's "acquiring" bank.

- The acquiring bank contacts the credit card association (e.g. Visa) who then passes the information to the consumer's "issuing" bank.

- The issuing bank either authorizes or declines the payment, passing back through the entire chain.

- Once it receives authorization and completes the transaction with the consumer, the website sends the actual payment request back through the chain.

- Within about three days, the issuing bank deposits the funds in the bank account specified for the ministry's "merchant" account.

Since each of these entities is a business, they all expect to get paid a small transaction fee for helping out. In addition to the complexity of the transaction flow, there's also this issue of "issuing" banks and "acquiring" banks and "merchant" accounts. The issuing bank is the one that issued the credit card to the consumer and who sends them the bill each month. The acquiring bank is the bank used by the ministry to collect payments from all the issuing banks. Just as the consumer needs a special kind of account (a credit card account) to make payments, the ministry needs a special kind of account (a merchant account) to collect

payments.

A merchant account with your bank likely has a variety of fees including a "discount fee" (typically 2-3% of each transaction), a "transaction fee" (typically 20-40 cents per transaction), a monthly service fee (typically $10-20), an annual fee (varies widely, but not uncommon to be $100+), and various other fees for different situations.

But setting up a merchant account only gets you half way there. You also need to add a shopping cart to your website to present the transaction to the consumer, collect their credit card, and present them with a receipt. Shopping cart software is available from a variety of vendors, or there are free open source options.

Do I Really Need All of That?

Wow – that's a lot of work and a lot of fees. Aren't there any simpler options?

Since many small businesses have struggled with the challenge of setting up eCommerce, offers have emerged which greatly simplify the process. PayPal is the most well known of these options. PayPal was started to provide an easy way for eBay vendors to sell their wares and was later acquired into eBay. However,

there's a pretty good range of options that can be considered that fall along a spectrum from the simplicity of eBay (no merchant account or shopping cart required) to hybrid models that require either a shopping cart or a merchant account.

A few examples include:

- Amazon Simple Pay: provides a simple, button based mechanism that takes consumers directly from a page in your website to Amazon's payment system. If they already have credit card, billing, and shipping information on file at Amazon, they don't need to re-enter it. Amazon generally charges 30 cents per transaction plus 2.9% of the transaction.

- Google Checkout: provides a shopping cart solution (or can integrate with other shopping cart software) and then handles the payments through Google's system. If the consumer has used Google Checkout in the past, their previously entered information is available. Google generally charges 30 cents per transaction plus 2.9% of the transaction.

- Checkout by Amazon: provides a complete

shopping cart solution where consumers pay through Amazon's system. Amazon generally charges 30 cents per transaction plus 2.9% of the transaction.

- Foxy Cart: a hosted shopping cart that eliminates the need to install shopping cart software on your site, but still requires you to get a merchant account. Foxy Cart charges $19 a month (plus you pay your merchant account fees).

There are many other similar offers out there. Most of the ones listed above also provide discounts to non-profits.

How to Decide?

With so many choices, how did we decide which path to pursue for Hschooler.net?

There are basically three decisions to make:

- Do we want to get a Merchant Account?

- Do we want to implement a Shopping Cart?

- Which vendor do we want to use?

The decision for whether or not to get a Merchant Account comes down to a question of scale. For a business or ministry doing lots of transactions, it may make financial sense to set up a Merchant Account. A Merchant Account also may look more reputable since all the interactions with the consumer will be in your business/ministry's name. In the end, it's a question of whether it's worth the time, trouble, and expense to set up and manage the accounts.
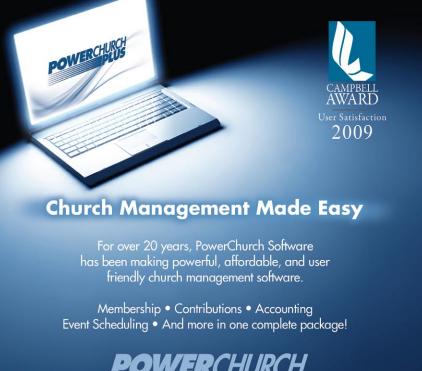
Deciding whether or not to implement a Shopping Cart is a similar exercise. If you have low transaction volumes, it's probably not worth messing with. If you have high transaction volumes, integrating a shopping cart into your site will give a more professional image to those visiting your site

and making transactions.

However, there's another factor that led me away from either implementing a shopping cart or a merchant account.

Titus 1:7-8 says "For an overseer, as God's steward, must be above reproach. He must not be arrogant or quick-tempered or a drunkard or violent or greedy for gain, but hospitable, a lover of good, self-controlled, upright, holy, and disciplined." (ESV)

This passage is specifically dealing with qualifications for church office; however, as a Christian in business, I believe I must act as God's steward. For me, it's important for Hschooler.net to be "above reproach." If you've ever had your credit card number stolen, you know that the first thing you do is start guessing which of your transactions led to the fraud. With that in mind, to remain above reproach, I don't ever want to touch my customers' credit card numbers – I want to leave that to companies whose business absolutely depends on protecting the security of my customers' information. I know that they have put resources against this important task that I could never afford.

So, for us, the decision came down to which vendor we would use, with the leading candidates being PayPal, Google, and Amazon. For our purposes we needed specific functionality (recurring subscription payments with a free trial period) that Google couldn't immediately support. Between Amazon and PayPal, it merely came down to one of brand strength. I think my customers will feel more comfortable doing business with Amazon than they will conducting business with PayPal. Therefore, we went with Amazon Simple Pay.

As you go through your decision process, you very well may reach a different conclusion, but I hope hearing our approach has been helpful to you.

Russ McGuire is an executive for a Fortune 100 company and the founder/co-founder of three technology start-ups. His latest entrepreneurial venture is Hschooler.net (http://hschooler.net), a social network for Christian families (especially homeschoolers) which is being built and run by three homeschooled students under Russ' direction.