SMALL BUSINESS
KNOWLEDGE AND
TRAINING PORTAL

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AMERICA'S SBDC TENNESSEE

ACCEPTING PAYMENTS & CREDIT CARD PROCESSING

PAYMENTS AND CREDIT CARDS

1. Forms of Payment:

Cash- There are high risks associated with using cash. The number one risk is higher incidences of theft by employees and the chance of someone robbing your store.

Checks- An issue with checks is delays in their processing. Checks are a good method of payment because they produce a solid paper trail, but a risk associated with receiving checks is that it could have insufficient funds.

Money Orders and Certified Funds- Consider this as a hybrid of cash and checks. They are very similar to checks; however, they are guaranteed dollars that are purchased through a secure source.

Mobile Payments- Well-known high tech firms such as Google and Apple offer forms of payment.

ACH/EFT- ACH stands for “Automatic Clearing House” and EFT stands for “Electronic Fund Transfer”. These are a great way to conduct business to business transactions.

Cryptocurrency- Bitcoin, Litecoin, and Polkadot are examples of this emerging form of virtual payments. Risks associated with accepting cryptocurrency include price volatility, and cyber-security issues.

Barter- Particularly with small businesses, bartering is a great way to exchange goods and services between other small businesses without greatly impacting your cashflow.

Credit Cards- Nearly 80% of all consumers prefer paying with a credit card. A problem with accepting credit card payments is the expenses involved.

2. Credit Card Processing

There are two major types of credit card processing methods. The first is the aggregators; this includes Square, Quickbooks, and other similar ones that charge a flat rate/fixed percentage. The benefit of aggregators is that they are great for small businesses that do less than $5,000 a month. They are easy and require no long-term contract. An issue with using aggregators is that as your processing goes up in volume, so will your cost. Another issue is that they tend to hold funds.

The second credit card processing method is Merchant Services Account. This is an individual account that you would have through a bank that would be tailored to you. If your business does large volumes of transactions, it is lower cost. A downside of Merchant Services Accounts that if you are considered a “high-risk merchant”, your fees are going to be higher. There is also an application process, so it is not as quick as opening an aggregator account.

3. How to Lower Your Costs

Avoid the bucket and tiered pricing models. Keep your equipment up to date. If you have a merchant account, ensure that it is on a net sales basis, not a growth sales basis. Giving your employees proper training on how to enter transactions is extremely important. If you are doing business to business or business to government transactions, make sure that you have interchange optimization. This ensures that you get the better rates for these transactions. Know how to find your downgrades, and reduce them.