The ultimate small business guide to accepting payments

keap fundera

Table of contents

Introduction

When starting a small business, entrepreneurs are worried about things like financing their venture, coming up with a marketing plan, hiring, operations, and other important tasks. Rarely do they stop and wonder, “How am I going to accept payments from my customers?”

How will I accept payments? I’ll take their cash. I’ll scan their credit cards. They’ll buy things from my online store and the internet will take care of it. Right?

Not quite. As it turns out, accepting payments from your customers, even as a B2C business—a coffee shop, an online retailer, a subscription dog-walking service—is a complicated endeavor. But if you don’t plan for how you’ll process payments from customers, you won’t get paid. And no business can survive without payments.

As consumer payment options proliferate—a variety of credit cards, digital wallets, and payment apps abound—businesses must add new capabilities, adjust their cash flow schedules, and enlist additional resources to help them keep the payment cycle going. Fail to offer all payment options to customers, and you might lose them to a competitor who does.

Suffice to say, there’s a lot to consider when it comes to accepting payments. The first step is to answer a simple question: Do you want to accept payments online, or in-store? (If the answer is both, that’s okay—we’ll get to that in a bit.)

How to accept payments in-store

Let's say you are opening a brick-and-mortar business and want to find the best, most affordable, and most secure way to take money from your customers, regardless of the payment method they choose.

For a long time, you could simply accept cash and only cash. Many businesses still cling to this method—and for some that's fine. Cash is still the most-used method of payment in the United States, and experts say we are generations away from being a cashless society.

That being said, stores that don't accept alternative forms of payment may increasingly miss out on business from people who don't carry cash. According to Pew Research in 2018, "just under half (46%) of Americans 'don't really worry much about whether they have cash with them, since there are lots of other ways to pay for things." That's a seven-point increase from 2015.

Plus, some businesses have decided to refuse cash altogether, citing security concerns as well as the ubiquitousness of non-cash options as the impetus for moving to a system where every transaction is an insert or a swipe, rather than a process of counting coins. To be modern, then, is to accept other types of payments.

To do that, your first step is to find yourself a merchant services provider.

Merchant services providers

Just as you're in the business of selling your products or services, a merchant services provider is in the business of helping you process non-cash payments from customers.

For years, this primarily meant acting as an intermediary in a credit card sale—between the customer's credit card issuer and your bank account, to put things simply. Increasingly, merchant services providers also provide online payment gateways for ecommerce solutions, point of sale systems, and software that may include the ability to accept other forms of payment, as well as integrate with other shop solutions like inventory management and customer loyalty programs.

Much of what we'll talk about in this section of the guide will fall under the large umbrella term of merchant services. You can use just one aspect of a merchant services provider's offerings (i.e., just a credit card terminal and payment processor) or many, depending on your business's needs. We'll break down the main components below.

Merchant accounts

A merchant account is key to accepting credit card payments in any setting. Think of a merchant account as a type of bank account where funds from your customers temporarily reside until they are transferred to your business bank account.

Merchant account providers handle all the little details that go into accepting a credit card payment. They also more or less immediately send you your owed funds from the processed card transactions, while they wait for the customer's funds to clear. You get paid faster, and you don't assume the risk that can come with credit card payments.

For their trouble, merchant accounts take a small cut of your transactions—at a rate that varies depending on the specifics of your business. Here are some of the basic fees that merchant account providers assess when handling your credit card transactions:

Interchange rate

Each major credit card company charges a fee each time a customer uses their products. The rate varies not just by card issuer, but by situation: An in-person purchase carries less risk (as there is less of a chance of fraud) than online, and therefore is less expensive.

Markup fee

For handling the purchase, your merchant account provider levies a charge, which is how they make a profit. Different providers use different payment structures. The three most common are tiered (a different rate for every type of transaction, such as the type of card, or method of payment), interchange-plus (a combination of the interchange fee, plus a small markup which is often a fixed amount and a percentage of the purchase) or flat-rate (a consistent rate for each type of transaction, such as in-person, online, or manually entered payments).

You can choose from hundreds of merchant account providers, from banks to independent sales organizations to payment processing companies. Each one may offer you a different deal based off a different payment structure, different additional services, and varying levels of customer service. You may also have to pay set up fees, early cancellation fees, and processing fees, among other costs—so reading the fine print before choosing a merchant account provider is crucial.

Traditional merchant account vs. payment service provider

The breakdown doesn't stop there. When choosing a merchant account, you can decide between two different main types: A traditional (or direct) merchant account or a more robust option called a payment service provider.

Working with a traditional merchant account provider means obtaining your own, dedicated merchant account. This option typically has higher monthly or transactional fees, but you'll often receive more hands-on customer service. Plus, funding holds, account freezes, and suspensions due to fraud are less common, and will clear up more quickly.

A payment service provider is a solution that includes a merchant account baked into the offering. You'll also likely be included in an "aggregated" merchant account, which provides processing services for an entire portfolio of companies similar to yours. Rates through these providers are typically lower than through traditional accounts, particularly if you have lower transaction volumes that will take advantage of the low per-transaction rate.

Point of sale system

A point of sale (POS) is a bit harder to define, because it can take several different forms. Your POS system could be your cash register at your store, or the payment page on your ecommerce site. Basically, it's the point where the sale takes place. Makes sense, right?

Therefore, a POS system is the hardware, software, or a combination of both, that handle payments from a customer. It's not just a credit card processor—though that is part of the equation.

Lots of pieces of hardware could be considered your "point of sale." It might be an internet-enabled device (like a tablet or smartphone), a credit card reader, a barcode scanner and/or printer, a terminal stand, scale, cash drawer, and so on. When it comes to in-person payments, your software options are the interfaces that often come bundled with accompanying modern POS systems.

You can typically obtain a modern POS system from your payment service provider. For example, Square can provide you with the hardware to handle a payment, with the software to make the transaction seamless—as well as the software to handle a payment that takes place online. If you go with a traditional merchant account, you may need to obtain a POS system separately.

Your POS system should, at a bare minimum, process your payments. Otherwise, it's pretty much useless. This means helping you process the following transactions in-person:

- **Magstripe:** The most basic way to read a customer credit card is by swiping the card's magstripe, and most every credit card reader can handle this task.
- **EMV:** Over the last few years, credit cards embedded with microchips have slowly become the global standard. These cards have enhanced security features that will give your customers' peace of mind and will result in fewer instances of fraud.
- **Contactless:** Virtual credit card apps like Apple Pay and Google Pay are quickly gaining steam in the in-person payment world. A POS that has a near-field communication (NFC) reader will cost extra, but you'll be the ultimate in convenience for your customers.

Some POS systems also help you run reports, manage your inventory, and administrate your customer loyalty programs. If you don't already have software that does these things, a POS that handles such tasks all in one place is a good option.

How to accept payments online

Many of the same tools that apply to processing payments from customers in-person also apply to processing online payments. There are a few different tools and payment methods to be aware of, however.

As we'll discuss below, it's entirely possible to build an ecommerce store on your own, and add all the different tools and components you need to facilitate secure and affordable payments along the way. A much more common effort these days, however, is to use one of the many ecommerce platform options available to small businesses.

Let's discuss ecommerce platforms generally and why they're a common option for business owners in the modern era.

Ecommerce platforms

Ecommerce platforms are software applications that allow online store owners to manage their website, sales, inventory, and operations without building out their own. In many cases, you can get started selling your wares on an ecommerce platform right away—and many providers offer different price points, functionalities, and branding options.

Leading ecommerce platforms also have many of the tools and software applications you need to process payments from customers baked into their products. Just as buying a robust point of sale system from a PSP for your store gives you everything you need to process in-person payments, an ecommerce platform will handle the logistics of selling online, from encryption to fulfillment to, yes, payment processing.

Most ecommerce platforms will let customers browse your catalog, put the items they want in your online shopping cart, and check out. To accept these online payments, you'll still need a merchant account. You'll also need a payment gateway.

Payment gateway

A payment gateway is a software application that works in conjunction with your ecommerce platform to handle online payments. The payment gateway is a secure bridge between your payment processing system and the customer's online payment of choice. Once the transaction is approved the payment gateway sends your funds to your merchant account.

Why is this necessary? Sending payment transaction information directly from a website to a payment processor is prohibited.

Ecommerce platforms and payment service providers like Shopify and Square, respectively, have payment gateways included in their product offerings. If you are not using one of these, you'll need to get in touch with a payment gateway provider like Authorize.net or PayPal.

The most important factors to consider when choosing a payment gateway (and whether or not to go with the payment gateway option offered by your ecommerce solution) include:

- **Cost:** Payment gateways may levy setup fees, monthly fees, and transaction fees, depending on the option. Payment gateways through PSPs typically don't charge monthly fees, but will have a higher per-transaction rate—so high-transaction businesses and low-transaction businesses should both take note of what they're charged with each possibility.
- **Security:** Good payment gateways should have point-to-point encryption and Level 1 PCI compliance standards.
- **Accepted payment methods:** Payment gateways that accept every type of credit card will cost more money, but businesses can lose valuable sales if they don't let their customers pay with their card of choice. Understanding your target customer is key to knowing whether allowing them to pay with, say, American Express is worth the cost.

Other considerations include compatibility with your existing software choices and the level of customer support on offer.

Integrated solutions vs. a la carte

As mentioned above, an ecommerce platform that provides a merchant account, payment gateway, branded marketplace, and even additional help with fulfillment and marketing is a popular option for businesses looking to expand into ecommerce.

Each of the top ecommerce platforms will have different price points, inventory options, product types (product vs. service, or selling just domestically vs. internationally), security certifications, mobile shopping capabilities, and more.

Want a good starter ecommerce platform renowned for its ease-of-use and myriad features? Shopify is a great bet. Want an even more simple and pared down starting point? Volusion is well-regarded for its user-friendliness. Businesses selling handicrafts and other unique products should check out Etsy, while businesses that sell only digital products can try Sellfy. A more complete list of ecommerce platform rankings can be found here.

5 Genius Tips for Opening an Etsy Shop by Fundera

Of course, you're not required to use any of the above ecommerce platforms to sell online. You can select all the tools you need—virtual terminal, merchant account, payment gateway—and pair them with your existing online footprint (your website and social media spaces, namely) to sell your wares. By doing this, you may save money on fees by selecting the cheaper options and integrating them.

The question, of course, is if doing this is worth your time. Using several different online payment processing options means more accounts to handle and a higher potential for a technical issue that you'll need to resolve. If you have the time and patience for potential setbacks and want to save some cash, give it a shot. You can always migrate over to an ecommerce platform at a later date.

Other types of online payments

It's worth mentioning that processing credit and debit card payments through an ecommerce platform isn't the only way to accept customer payments. A few other options exist, including:

- **ACH payments:** You can accept an eCheck, which directly debits a bank account, with ACH processing. The customer inputs their information from their bank account (routing and account numbers, name, amount, and authorization) into your ACH processing form. This option is often less expensive than running a credit card transaction.
- **Recurring payments:** Subscription services can schedule recurring payments, billing customers on the same day each month. A virtual terminal is usually used in this instance to collect the customer's information.
- **On-the-go:** If you own a mobile business—perhaps you run a food truck, or only sell your wares at festivals or in pop-up stores—you can use POS software that runs through an internet-connected device like a tablet or smartphone to run payments.

Selling both in-store and online

One last word on an important question that some people have: Do you need to come up with different payment solutions if you're selling to customers both in-store and online? The answer, typically, is no.

You can make your life infinitely easier and just use the same payment processor for both types of selling. Payment service providers like Square, for example, can process every type of sale. If you have an ecommerce payment solution that works for you, or a brick-and-mortar payment service that works for you, take it with you when you expand into the alternate sphere.

There is just one difference to note: You'll pay a higher fee for accepting online sales than for in-store sales. Of course, the opportunity to sell to customers around the country (or even around the world), at all hours of the day, should offset the cost of selling online.

Small business automation to manage receivables

Now that you have a better understanding of payment processing solutions and options, understanding 'how' to process payment will streamline your efforts even further. One option is to automate. Learning to leverage automation is an affordable way to improve your operations while keeping costs manageable. And finding a good match in automation tools to support your billing and payment processing is critical to your business growth.

The receivables portion of payments, in particular, can be a strain on time and staff, and the more manual intervention you have, the greater the burden. Leveraging automation to manage your receivables is an excellent way to reduce the labor-intensive, administrative lift by shifting that workload to a technology solution. Adding automation to your payment process has many advantages.

Increase speed and efficiency in your business processes by adding automation to your company culture. Automated processes can reduce manual burden, inefficiencies, and errors. By automating time-consuming administrative processes, you free your most valuable asset—your people—to focus on the areas where human beings can make the most difference, like building meaningful relationships with your customers.

Generate valuable insights for your business and integrate data analysis to enhance your business strategy. Through automation, you can capture information about your customers more consistently and gain insights about consumer behavior, helping you meet customer needs.

Avoid unexpected business surprises through automation software which integrates with your other software programs. Automation helps you identify areas of risk through increased data insights and can help avoid scheduling, billing and payment mistakes made through human error.

Increase employee satisfaction by reducing workflow burden and improving resources. When you make your employees' jobs easier and free them to focus on results—like serving your customers—you'll find that your employees are more satisfied with their jobs. Happy employees stay longer and are more productive.

Captivate your customers with an improved customer experience. How about easing the purchasing process and making it easier for them to become a loyal customer? Automation does just that. Having a clunky, difficult experience with a buying decision has the opposite effect. Automation will help you build a consistent, efficient process into your business workflow, which provides the same consistent and reliable experience for your customers every time. A happy customer is often a loyal customer.

Automation through a diverse receivables system manages the whole accounts receivables (AR) process digitally from sale to payment, including tracking customers' buying habits, generating invoices, creating emails and reminders and supporting payment collection.

With these systems, you can set up automatic, recurring payments, and your business will get paid faster because the efficient, automated process ensures consistent, controlled interactions between your company and your customer. Using automated payments will help your business improve cash flow as you'll know when to expect certain payments.

Top recurring payment tools and how these tools can help you get paid faster

When it comes to recurring payments, managing the billing cycle can cost you time and money. Leverage the best payment tools to fit your business needs and save on both. Automating this part of the process gives you the same advantages as above, and stay directly focused on payment collection. And even better news; recurring payment tools can help you collect on those outstanding debts faster and more efficiently.

So, how do recurring payments work? Give your customers an option to create a saved "card on file" in your **payment processing system** and the additional option to give their permission for a recurring charge. Your business can then use this stored data to process monthly payments for recurring services, subscriptions, and memberships. Not only does this make the collection process easier and more effective for you, but it also simplifies the process for your customers and increases customer satisfaction. According to a McKinsey customer experience survey of 27,000 consumers, companies that provide a high quality/low effort experience to their customers reported that customer satisfaction increased by 20 percent and revenue growth increased by 10-15 percent.

With a wide range of payment providers to choose from, it's important to make a choice that meets your unique business needs and provides a secure transaction environment for your customers. Many customer relationship management (CRM) tools have recurring payment features to maximize your options for communication and documentation with your customers. A smoothly performing system will enhance the customer experience and help streamline your billing and payment process.

Selecting a merchant services option [link to above payment as e-commerce section] that interfaces with your billing and payment system and provides reliable data security for your customers will provide dual benefits. A proven, secure online payment gateway gives your customers additional peace of mind when making their online payments. This same, reliable system also ensures those payments are collected and transferred to you safely and efficiently so you get paid faster. The below options are some of the top-rated payment systems that can make recurring payment processing hassle-free for you and your customers.

- **PayPal** supports online recurring payments with both PayPal and credit or debit card options.
- **Square** provides invoice-based payment processing online with additional functionality for mobile and in-store purchasing.
- **Stripe** manages recurring payments for credit card, automated clearing house (ACH) and in-app sales.
- **QuickBooks Payments** processes recurring credit card and ACH check payments via QuickBooks Online or QuickBooks desktop.
- Authorize.Net is an online payment gateway that provides data security for online payments.
- Veem provides a secure digital payment processor for business-to-business payments that will safely manage larger wire transactions.

Pairing your payment provider with a payment system that interfaces well with your other business systems supports a seamless process for your customers. And creating a simple, easy-to-use process for your customers means faster payments and increased customer retention for your business. Keap invoicing and payment system is an excellent way to manage your billing process as it provides an infrastructure for your payment provider and integrates seamlessly with Keap's Client Relationship Management (CRM) system.

How not to be the bill collector

You've worked hard to build your business and nurture relationships with your customers, but getting paid is essential to maintaining and growing your business. So how do you keep the payment cycle on track without feeling like a bill collector?

In the past, the billing cycle began with selling a product and ended when the "balance due" reached $0. Collecting payments involved chasing customers down by phone and mail to remind them of payment due dates and to request payment. Many vendors didn't follow up with a customer except to collect a past-due bill.

Technology and lifestyles have changed and so have the way people make buying decisions and manage payments. Consumers are seeking an exceptional customer experience. Instead of focusing on selling, focus on building long-term relationships with your customers as you identify how your product or service meets your customer's needs. In today's culture, getting a customer on the phone can be very difficult—especially when they have a payment due. But when you've established a positive relationship with your customers, built on service, information, and communication, they are far more likely to respond to contacts asking for their input—or their payment.

Some advanced planning can increase your customer experience efficiency on the front end and minimize collection activities. Below are six steps you can take before and during the billing cycle.

1. **Provide easy options** for making payments. Point of sale platforms should include a link with credit or debit card options
2. **Include a link to pay** in the body of reminder emails. When your customer visits your website, make sure statement and payment options are highly visible and easy to access, and that the process works seamlessly.
3. **Establish a payment protocol** from the beginning, document it and communicate it internally and to your customers. Build a payment method into your purchasing process so your customers select their preferred method of payment at the time of purchase.
4. **Autopay options** offer additional payment opportunities to your customers. Not only does an autopay option signal that payment

is the expectation, but it also automates the payment collection process so that manual collection activities are minimized or eliminated.

5. **Pre-due date reminders** of an upcoming payment are a courtesy that many customers appreciate. Read below about the three categories of customers who typically owe money to small businesses. For those who are legitimately juggling many payment due dates and are struggling with time to make those payments, a helpful reminder with any easy link to make a payment can be exactly what they need to remove one payment burden from their plate.

6. **Multi-pronged payment reminders** can increase the effectiveness of your payment cycle. Think about the payment cycle like any other communication strategy. You might begin with the pre-due date reminder (above), followed by a day-of reminder and a series of follow-up reminders that notify your customer of the missed payment. Consider incentives you can offer to increase the speed of payment, like a small discount on bills paid in full before the due date. For late payments, consider including options to avoid late payment fees and negative credit reporting in exchange for bringing the account current.

Avoiding invoicing mistakes

Invoicing mistakes can be costly—and avoided. Take time to make sure your process is solid and identify the pitfalls from beginning to end so you know what to avoid. Think about the billing and payment cycle as a continuum to help spotlight potential areas of risk in your business processes. From the point of sale where you make decisions about what payment options to offer your customers through the payment reminder and payment collection cycle, there are opportunities to streamline, automate, clarify and simplify. Making thoughtful, strategic decisions about each step in your process to keep a healthy balance between customer satisfaction and healthy cash flow for your business. Check out these key considerations to help avoid invoice and other payment-related mistakes.

- **Develop and sign a clear contract** to avoid misunderstandings later.
- **Make sure your terms are clear.** Take care to avoid overly long payment terms. Familiarize yourself with industry standards and billing protocol.
- **Invoice promptly upon completion of services.** When your

process is manual, invoicing can be the last priority. Put it high on the list because this step drives your revenue stream.

- **Itemize to communicate clear costs.** Customers need to know what they're paying for and itemization is an excellent way to document your investment of time and product.
- **Verify invoice details to confirm accuracy.** Mistakes in billing can cost your company additional time and money. You can be fairly certain that your customers will bring an overcharge to your attention, but under-billing may escape notice and, over time, can add up to significant loss.
- **Follow up on unpaid invoices promptly.** Establish and maintain a consistent payment reminder process, which can be part of your automated payment system. When your customers hear from you consistently, they'll know that you are serious about collecting the outstanding payment.
- **Offer a variety of payment options.** Variety is the spice of life, and it increases the likelihood that your customer will pay on time when they can select options that meet their individual needs. Some customers like to initiate an online payment and others prefer to establish a recurring auto-payment so they don't have to worry about a deadline each month.
- **Your invoice is a marketing tool;** make sure the message is clear and aligned with your company culture. Whatever the format or platform you choose to contact your customers, take the time to create engaging visuals, clean and easy-to-read content and clear direction.
- **Be polite and thoughtful.** Establish a tone of mutual respect from the outset. Remember that we rarely know what another person is experiencing at any given moment and your company's interaction with your customers should be the bright spot in their days.
- **Consider late fees for late payments and incentives for early payments.** While you will have established a strong billing and payment cycle by using the other elements on this list, an added incentive for customers to make their payments can be very helpful.

How to handle late payments (or tracking down late payments, can't keep sending reminders forever)

Inevitably, when you offer payment options that extend beyond "cash on delivery," late payments will occur no matter how effectively you plan or manage your receivables. Your **CRM** can help you manage your customer billing cycles and keep close tabs on late payments, but understanding why people have past due payments can help you as a business owner approach collecting those payments more strategically.

When it comes to customers who owe money to small businesses, many small business experts identify three categories. These customers range from those who have an unexpected change in their situation to those who have habitually late or no-pay behaviors.

1. **Situational late-pay:** These customers usually pay early or on time but can't pay your bill because of current (often unexpected) financial distress like injury, illness or loss of income. Because this category of customer generally intends to honor their debt and is highly likely to bring their payments current and pay off his debt as soon as they're able, it's worth finding a solution that will help this customer during a difficult time. This customer might benefit from:

    a. Reduced payment options: Two smaller monthly payments may be more feasible than a single large payment

    b. Delayed payment options

    c. Interest or penalty forgiveness

2. **Capacity late-pay:** Money may not be an issue for these customers, but time and financial management are. This is a customer who has multiple payments due at the same time each month and tends to pay off various bills sporadically but is likely to be inconsistent with regular payments. This customer might benefit from:

    a. Consistent payment reminders

    b. Easy payment options including links to quick-pay

    c. Incentives to make multiple payments or pay-off the debt

3. **Intentional late/no-pay:** Paying your bill is not a priority for these customers and they may do anything to avoid paying you. While you should continue processing these overdue accounts through your automated system, your time will yield more rewards short- and long-term when invested in the first two categories of customers.

Be purposeful about avoiding intentional late/no-pay customers to begin with. Invest time in developing a strategy to identify which customers may fall into that category. Focus your time instead on working with situational or capacity late-pay clients. These customers have a history of paying their debts and, although they may currently be delayed or sporadic, they are far more likely to pay up and become loyal customers as a result of your willingness to customize your approach to their payment options.

As you pursue late payments, keep some strategic decisions in mind to make the most of the collection actions you choose. Develop some protocols for collection activities whether by email, text or phone to ensure that the messages you and your team convey are aligned with the company culture you want to portray. Here are a few pointers.

- Follow-up consistently
- Focus on facts and "de-emotionalize" the situation
- Be calm and establish a tone of firm expectation and collaboration
- Document interactions
- Understand your rights as a business owner

You can use your **CRM** to automate a payment reminder communication cycle in response to your billing and payment system trends. Focusing on customers who have been or have the potential to become loyal, long-term customers will facilitate relationship-building. Remember that when you have established consistent communication with your customers as part of building exceptional customer experience, it will be much easier to reach them and work collaboratively on options for bringing payments current.

Payments: the last word

The list of payment options is expanding all the time. It's important to keep up with the times and meet customers where they are, both in terms of location (online or offline) and in terms of what payment options they're using from a technological standpoint.

The takeaway here is simple: If you run a B2C business, there is probably an all-in-one solution that can help you accept payments from customers in any setting or in any format. You can also piece together a few different options to help keep your costs down. But the bottom line is that for every payment option out there, there's a tool that can help you run it—keeping your business moving at the speed of opportunity.