
What Every Business Should Know About Credit Cards

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Anita Campbell: Every small business should accept credit cards. Doing so can help you grow your sales and simplify collections while providing great customer service. Navigating the world of merchant accounts can be confusing, even intimidating.

My guest today is Samuel Peery, Vice President of Marketing at ProPay. Samuel is here to explain why small businesses should accept credit cards.

He will help you navigate the overwhelming – sometimes -- world of merchant accounts and teach you what things to look for when choosing a merchant account. ProPay is an online service that allows small businesses to accept credit cards for on and offline sales.

ProPay was founded in 1997 and is the leading provider of merchant accounts for direct selling consultants and distributors.

Welcome to the show Samuel. It's great to have you here.

Samuel Peery: Thank you for having me, Anita.

Anita Campbell: Samuel, let's start from the very beginning if we can as we walk through this material. So by the very beginning, what I mean is. . . what exactly is a merchant account?

Samuel Peery: Yes, a lot of small businesses are fuzzy on this. A merchant account is simply an account that allows you to accept credit cards. When you do a credit card transaction the proceeds from that transaction are deposited into this account.

Anita Campbell: So how do you find or sign up for a merchant account? I assume you can go online and do a search there.

Samuel Peery: Yes. There are three ways that people can find merchant accounts. The most traditional way is through a bank. Just about any bank will provide a merchant account. Smaller banks tend to provide just for free to a third party. They may not provide that service themselves.

Larger banks will have their own merchant accounts. So that's the first way.

The second way is simply through sales people. There are what is called independent sales organizations or ISOs. You'll see that term. These are people who are feet on the street. They'll either go from business to business or cold call small businesses and help them get set up with merchant accounts.

Some of the sales people will push a specific type of merchant account. You have to be careful that it is a good fit for your business. Others will have a variety of merchant accounts in their quiver that they can set you up with.

The third way an increasingly popular way to sign for merchant accounts is on the Internet. This is how ProPay signs people up for merchant accounts. This is a much more convenient, quick way to research merchant accounts and sign up.

ProPay actually is the only merchant account industry that has instant sign up so you can actually be processing in five minutes. Most other merchant accounts will take a couple days to a few weeks, but you can initiate the process online.

Also the Internet has obviously introduced some nontraditional types of merchant accounts like PayPal and Google Checkout. In most scenarios the merchant doesn't have their own actual merchant account but they run processes. They run their processing through an aggregated corporate account that either PayPal or Google has.

ProPay is somewhere in the middle. We simplify the merchant account world and we have the online transactions. So it's somewhere in the middle between traditional and some of the newer merchant accounts that are coming out.

Anita Campbell: So to recap, there are really three ways to get a merchant account. First, you can go down to your local bank and ask them. Second, you can wait until you're cold called or otherwise approached by one of these independent sales agents who are actually selling merchant accounts. Or you can go online and that's the third way to find a merchant account.

Samuel Peery: Exactly.

Anita Campbell: Let's talk a little bit about the benefits of accepting credit cards. Now that may seem pretty obvious, but maybe there are some benefits that we small business owners are not thinking about.

Samuel Peery: We've found that a lot of small businesses tend to be resistant to accepting credit cards, which is surprising. The latest statistics show that accepting credit cards is the preferred method of payment for consumers, outpacing checks and cash payments. So, customers want to be able to pay by credit card.

I think small businesses are mostly resistant, because of the fees. You do have to be careful about that and make sure you have a good fit. As long as you're careful, then the fees are typically pretty minimal.

There are really two segments of small businesses. I'm going to kind of break it down in those two segments. One is retailers and the other is a service oriented business. They have slightly different reasons for wanting to accept credit cards, so let me talk about retailers first.

The main reason retailers want to accept credit cards is simply to increase their sales. There have actually been a number of studies done. One was conducted by the firm Price Waterhouse Coopers. They showed that the average credit card order size is three to four times larger than the average check and cash order. So, you're definitely going to be increasing your order size.

We've run our own internal studies that have shown similar numbers, on the order of two to three times larger. In addition to that we've heard story after story from our users. In fact, we have a number of testimonials where our users called in and told their success stories of accepting credit cards. It's been consistent with those studies, we've shown that anywhere from 40% to 400% increase in sales.

People have to understand this may not be across the board. In other words if your average order size is \$100, you may not see every single order being larger than that. You will see a significant number of orders that can be significantly larger than that, and it will bring your overall average up.

Anita Campbell: Well, that seems like a great incentive for a retailer to accept credit cards.

Samuel Peery: Absolutely.

Anita Campbell: So what about other types of vendors or sellers?

Samuel Peery: Well as far as a service oriented business goes, there's slightly different incentive. Now there can be an effective of increasing your sales, people will be more likely to do business with you again if they can pay easily. They also may be more likely to refer you to other people, if they're able to pay easily.

The main reason for service oriented businesses to accept credit cards is more along the lines of simplifying collections and increasing your cash flow. We actually did a study. We partnered with a local CPA society here and they allowed us to survey their members. What we found was that 24% of their accounts receivable were 90 days old and past due. They were delinquent.

So, about a quarter of their billing they weren't getting paid for. This number went as high in some cases as 75%. So I mean to put it roughly in other terms, 75% of what some of these other people were doing, some of the work they were doing, they were not getting paid for. They're certainly not getting paid for in a timely manner.

So the good news is that this is an incredibly easy problem to solve by a simple policy change. What we recommend doing, if you have a service oriented business, is to make sure you collect the credit card number up front before you begin any work. Simply state in your policy that if they don't pay within the billing period, typically 30 days or so, that you'll simply charge their card for that business.

Most clients love this. I mean it's actually good customer service to them, because it makes it easy for them to pay. They can say, "Just put it on my card."

Anita Campbell: So, you actually have customers who have used that and find that it has worked for them. That's great!

Samuel Peery: Absolutely, yeah. We've had lawyers using it to collect retainers. We were actually surprised that the majority of these small business professionals were not accepting credit cards, and that was surprising particularly with CPAs. I mean, since you'd expect them to be sort of up on the financial services and on the cutting edge of that.

Anita Campbell: Well, let me ask you a tough question about that, Samuel. Has anyone reported any negatives as a result of that kind of policy of requiring a credit card number up front and then charging it in the event the invoice is not paid within 30 days?

Samuel Peery: No, we haven't actually heard any negative stories. The most common problem or complication people run into is with charge backs. That's where the customer sees a charge on the credit card statement and either doesn't know what it is or doesn't think it was a valid charge. They call the credit card company, the company that issued their card, and they charge it back. That can be somewhat of a pain to deal with.

Most of the time however, simple communication can solve that problem. The biggest reason that occurs is because a small business owner hasn't communicated to the client clearly what's

going to show up on their statement. So you definitely want to know what's showing up on your customer's statement, tell them that so they won't charge it back.

Other than that, we haven't heard any negative feedback. Like I say, it tends to be a good customer service play actually.

Anita Campbell: That's excellent that you've been able to help your clients, your customers actually run their businesses better, which is what that really amounts to.

Samuel Peery: Absolutely.

Anita Campbell: We are about to take a short break here for some commercials. We've got a lot more with Samuel Peery of ProPay. When we come back, Samuel, one of the things I'd like to talk to you about is, give us some background, some history about ProPay and what ProPay does.

When we come back from the break, we'll be talking more about ProPay and specifically what it offers, what the company's all about. I know it's got an interesting history. It'll be very interesting to hear just a lot more about ProPay and how it's achieved its success, particularly in the world of direct selling consultants and distributors.

Join us after the break for more with Samuel Peery of ProPay on why you should be accepting credit cards and how to set up and manage a merchant account for your business.

Join me after the break. I'm Anita Campbell.

[commercial break]

Anita Campbell: Hi, we're back with Samuel Peery, Vice President of Marketing at ProPay. We're talking today about what every business should know about taking credit cards.

Samuel, I'd just like to wrap up before we move on and talk about ProPay specifically, but I'd like to ask you are there any other reasons than the ones we've talked about so far that small businesses should accept credit cards?

Samuel Peery: Absolutely. I mentioned customer service; customers really want the convenience of being able to pay with credit cards. I think all of us can identify with this as consumers ourselves. Yeah, we have our rewards cards, and we want to be able to get our rewards points, so we try to use our credit cards at every possible opportunity. Also, accepting credit cards really just makes it easy to manage cash flow. There's good reporting with it.

I recently saw a commercial on TV where it showed people paying with credit cards and how simple and easy it was. Then there was all this ballet music playing, and somebody goes and pulls out their cash, and everything comes to a screeching halt. The person has to stop and get change, and it's a big deal. It's true. Credit cards are so much more fast and convenient. That's what customers expect from a small business professional.

The second thing we've heard, which is very interesting, is that it really helps with professional image and it gives an air of legitimacy to your business. There are a lot of people in particular that run businesses out of their home. We've heard from users like that that it really helps people feel like they're not just running a hobby or something. They're an actual business owner, and very legitimate.

Some other stories we've heard are that people enjoy not having to deal with checks. In fact, one lady that uses our services said that she just got tired of receiving telephone orders, and then she'd have to wait for days or sometimes weeks for them to mail a check before she could send out the inventory. Here, she's holding inventory. She's not able to get the product out to her customers quickly. It's an inconvenience to both her and her customer. She said once she started taking credit cards, she never went back.

Honestly, the last reason is really to have better records. It can be cumbersome with cash and checks to keep track of that, and by accepting credit cards, you have an automatic electronic record of all of your transactions.

Anita Campbell: Those are some, I think, important reasons to accept credit cards that people don't often think about, or certainly don't think about until you've had a problem come up, and then you're trying to solve it. We don't want to be in that kind of situation. We want to be proactive.

Samuel Peery: It's interesting, Anita, because we've also heard several stories of people who said, "I resisted accepting credit cards. I did not want to do it. I did not want to pay the fees." Someone came along and literally, one story, we had one of our users lost an \$800 order because this person wanted to pay by credit card, and when she didn't have that option, she didn't place the order. That was a very large wake up call, and she quickly went and signed up and has accepted credit cards ever since.

Anita Campbell: Nothing like losing money to want you to change what you're doing.

Samuel Peery: Yeah, isn't that the truth?

Anita Campbell: Very, very much so. Let's switch gears now for a few minutes. I'd like to ask you a little bit about the ProPay history and have you describe it if you will. We've talked by phone and it's a very interesting history. So how did ProPay get started?

Samuel Peery: We started in 1997 and we were originally playing in the online auction world, with the hype surrounding that, and we decided pretty quickly that it wasn't the space for us. It was very high risk, there tended to be a high degree of fraud, at least at that time.

So we veered from that and found a niche within the direct selling industry. We found that our product was just a perfect fit for these small business owners and gained tremendous success with that industry.

We went on as the recognized leader of merchant account provider in that industry. We actually, a few years back in 2003, received the Direct Selling Association's Vendor of the Year Award. We're the youngest company to ever receive that.

It's funny because we're very recognized within the direct selling industry. However, we're currently not as recognized outside of that industry. We've made some recent advances in our technology that allow us to....

Anita Campbell: I'm going to have to stop you right there Samuel because we're going to have to take a break. We'll pick this up right after the break and hear more from Samuel Peery on what every business should know about taking credit cards. I'm Anita Campbell.

[commercial break]

Anita Campbell: The topic of today's show is what every business should know about taking credit cards. My guest today is Samuel Peery, Vice President of Marketing at ProPay.

Well before we were interrupted by the break, Samuel, you were talking about the high profile that ProPay has in the direct selling industry. I'd like to pick up there again, but I wonder if you could take a step back for a moment. For anyone who's not familiar, just define for us what is direct selling.

Samuel Peery: Direct selling can be defined in two ways. There are two types of direct selling companies, or plans. One is a party plan. These are companies, for example, Mary Kay, Stampin' Up, Creative Memories, and companies where you'd have an in home party, and then place orders from there.

Typically, there are people who carry some sort of inventory and have a need to do face-to-face sales. The reason we serve to them so well is because our merchant account has what's called a virtual terminal. That's basically a way you log-in to your account on the Internet and you can key in a credit card number and get an authorization number that way.

A lot of people ask us, "Why not use something like PayPal?" The answer there is that PayPal is an online service. You use them to do online transactions. When you're face to face to somebody wanting to take an order the last thing you want to do is say, "Go home and I'll send you an email, and you can respond to it, and then we'll get the product to you sometime later." You want to be able to close the sale immediately.

Anita Campbell: You've had a history of working with direct sellers in the direct selling industry, but ProPay is not limited by any means to the direct selling industry, right?

Samuel Peery: Absolutely not. For a time, we were hesitant to go outside that industry. We're comfortable with it. We're comfortable with the risk levels associated with it. Some recent advances in our proprietary underwriting technology have allowed us to go outside of that industry and go to the general small business market at large.

This is as of just a couple months ago. We're now happy to be able to offer these award winning services to any small business owner. In fact, this proprietary technology as I mentioned earlier allows us to instantly underwrite an account, which is absolutely unique in the industry.

In fact, I heard just this morning, a gentleman called in and said, "I'm looking at signing up for your account. I have a big show on Thursday, and I'm going to need an account by then. Is this going to work for me?" We're happy to say "Yes, absolutely. You can sign up and start processing in five minutes."

Most other merchant accounts literally will take... some will say two days. I'd usually double the time that anybody says that it'll take to sign up, because you can run into snags, but you can go anywhere from a few days to several weeks. So it could really be a long, arduous process.

Anita Campbell: Explain for me a little bit more about why your technology lets someone sign up and start taking credit cards immediately and what is actually unique about that.

Samuel Peery: Like I say, we're the only ones in the industry that do that. Typically, merchant accounts are known for being cumbersome and kind of confusing and hard to work with. The fee structures tend to be very confusing. Honestly, typically, they'll have a number of monthly fees that... a lot of them are quite frankly, in my opinion, just padding. And just ways to make sure the merchant account company gets a certain amount of revenue on that account.

The variable fees that you pay on transactions, that's also known as the discount rate and that can be very confusing. One of the things we do to simplify that is we offer a blended rate. The way that works is: in general, a merchant can be charged--there's a table of over 150 different rates that they could possibly be charged on any transaction based on the variables of the transaction.

If we go back 20 or 30 years ago, there's only one rate. Whenever a merchant ran a credit card transaction they were charged this single rate, and that's become convoluted over time.

Just to give you an example of what some of those variables might be: one is whether there's a card present or not. In other words, if it's a swipe transaction and there's physical proof that a card was there, then you'll get a lower rate than if you the card is not there, and you just key in the transaction.

Rewards cards: if you have a frequent flyer card that you have to accept, those typically will cost more to accept. Information such as zip code and address: if you include that, it'll lower your rate. If you don't, then you'll be charged a penalty typically for that.

What ProPay has done is we've taken all that complexity, and we've said, "On our back end, we're charged all those different rates," so we're charged with that confusion, and we've taken it, and said, "OK, let us give you an average rate," and we're going to push this out at you. It's basically a fixed, guaranteed rate you know you're going to pay on every transaction.

You don't have to worry about if it's a rewards card or your customer said to use a rewards card, you're not going to be penalized for that. You'll just pay the same rate every time.

We've taken a lot of the complexity in the industry, and just made it simple. We don't have any of the monthly fees that tend to get confusing: monthly minimums and statement and gateway fees and those types of things.

Anita Campbell: What should a small business owner be looking for when looking for a merchant account? If you had to summarize, what are the key things to look for -- and the flip side being what the things to watch out for are, what would you recommend?

Samuel Peery: OK, yeah, let me address what to look for first. I'm actually going to steal. I listened to last week's show with Steve Rucinski and I'm going to steal his three C's. He mentioned three C's of using third party services.

The first was credibility, the second was capability, and the third is cost. Let me briefly address each of those.

In terms of credibility, you definitely want to make sure the company's credible. This can be an issue in the credit card processing industry. There tend to be a lot of fly-by-night companies or at least sales people who will sign you up, maybe give you an account that isn't a great fit, and then they're gone, and not there to service you.

To make sure they're credible, look for testimonials, and look for referrals. If you get a referral, make sure it's from a company of a similar size and nature to yours. If they're exceedingly larger or smaller than yours, and they recommend a merchant account, even though it may be a good fit for them, it may not be a good fit for you.

Also, look at how long they've been in business. There are a number of tools on the Internet that allow you to research that. One is actually called the Wayback Machine. You go to www.archive.org. This is essentially an archive of the Internet. You can take any Internet site, enter it in, and it'll show you how long that's sites existed, and what it's looked like.

One merchant account company I was researching, I kind of got the sense that they weren't really..., and they might have been a fly-by-night company. I went to this tool and looked them up and it turned out that a year previous to that, they were selling prepaid calling cards.

So that told me immediately that you should want to stay away from them because they may be offering merchant accounts today, but tomorrow who knows. So definitely make sure they're credible.

The second is capability. Now capability, really the main thing is look at how you need to process cards. Your unique business needs. Do you need a shopping cart? Do you need, or do you have a retail location and therefore are going to want to have a swipe device where you can swipe a card? If you're not, if you don't have a retail location, a virtual terminal is probably good enough, which is what I mentioned that ProPay offers.

A lot of merchant accounts will offer telephone processing including ProPay, that's an option we offer. That's basically an automated system where you'd call up and get an authorization for a card on the telephone.

Email invoicing, is that a need? There are also..., recently I've come across some mobile swipe devices, that's a swipe device that's attached to your cell phone. Those tend to be very expensive so there's probably a small portion of merchants that really need something to that extent.

Make sure that you can process the cards the way that you need to. Ideally you don't want to have a lot of options there that you don't use because you'll probably be paying for those in some way, shape or form and you could be paying too much as a result.

The last one I'll mention briefly is cost, this again is key in this industry. I've seen person after person, small businesses sign up for merchant accounts that don't end up being a good fit for them. The sad thing is that this is avoidable if you just know what to look for.

Like I mentioned, there are variable and fixed fees, the variable fees that what you pay on every transaction and this is known as the discount rate. Typically there is a percentage so let's see, 2.9% as an example. Then there's also going to be a per transaction fee which is going to be somewhere between 20 cents to 30-35 cents.

I'm not sure quite why it's structured like that in the industry but it's common to see that. Most small businesses think that they should be paying way less. They underestimate what they're going to be paying on the discount rate.

They think that they'll be paying in the one point something percent range, and for small businesses that's typically not realistic. If you're doing a slight transaction, you can expect to pay I would say on an average between two percent and three and a half percent. If it's a 'card not present' transaction then you'd be looking about half a percentage higher than that, so 2.5 to four percent roughly. If you're in that range then it's about right.

The only company to get those low, low rates, the one point whatever percent is large retailers and usually merchant accounts advertise their rock bottom rate. The reality is that you're probably never going to get that rate. Once upon a time their largest customer with the most ideal transaction may have paid this low rate at one point but you probably won't get that as a small business owner.

Anita Campbell: Sounds like great advice. Well we've got a little over a minute and a half left so I'd like to just wrap up if we can, Samuel. Is there any, are there any final words of wisdom you'd like to leave people with? Also tell us the URL for ProPay.

Samuel Peery: Yes, absolutely. We're actually going to be offering 50 percent off to all your listeners today, 50 percent off of our annual fee. So if you go to propay.com/smb, for small medium business, and you can get that special pricing.

In closing I would think there are few pieces of advice. One, be a smart consumer. Don't buy anything you don't understand and if you don't understand it make the salesperson explain it. If they can't explain it to you, don't buy it.

The number two advice I would give is don't sign up for a merchant account with a cancellation fee. I've seen time and time again people burned. They signed up, they thought it was a great

deal but they didn't fully understand there was a fee implication and then they found that they're stuck in the situation that had to pay \$300 to cancel the account.

Then the last thing is just be persistent in asking "are there any other fees?" Make sure that the merchant account provider talking to you is fully disclosing what you're going to be paying for that account.

Anita Campbell: Where is ProPay located physically?

Samuel Peery: We're located in Orem, Utah. It's about an hour south of Salt Lake.

Anita Campbell: Oh, OK. Out in the great west.

Samuel Peery: That's right.

Anita Campbell: Where are you located online? What's your virtual home?

Samuel Peery: Just go to ProPay.com, www.propay.com and as I mentioned to get special pricing. If you're interested in signing up, we'll be offering that for the remainder of the week and just go to propay.com/smb.

Anita Campbell: Thank you so much Samuel. This has been a very, very informative show. You've packed a lot of information into this. Thank you so much and I appreciate having you on the show. Samuel Peery, Vice President of Marketing for ProPay.

Well we will have our Today's Trend segment coming up in just a moment so please join me right after the break. I'm Anita Campbell.

[commercial break]

Anita Campbell: Welcome to Today's Trend. Today's Trend is the part of the show where we examine a trend that affects small businesses.

Today's Trend is about the rise of the big business/small business ecosystem. Most of what you read about when you see a comparison or a discussion of small business and big business is -- you see it phrased as "small business versus big business." Or you see "why small business is wonderful," etcetera, etcetera.

Now don't get me wrong, I'm a huge supporter of small business. Hey, that's what I do. But I have no illusions. Nothing is rosy one hundred percent of the time and it's a distortion to speak in glowing terms of small business instead of big business. There's no "instead of" about it.

Rather, small business and big business need each other. There's a place for small businesses and a place for large businesses. Both rely on the other to exist. Small business needs big business and big business needs small business, and that's just the way it is.

So, instead of focusing on the big versus the small, or the other way around, think of it as an ecosystem where everyone has a place, every business has a place and every business relies on the other. It's a delicate balance. Once, total vertical integration was a goal. Today, outsourcing of crucial elements of a company's production process has become the norm. In the future, that outsourcing will be going more and more to smaller businesses, from large businesses.

Increasingly, smaller businesses are able to do the work of the big companies. Smaller businesses can deliver higher quality for less cost. In some fields, especially highly creative ones, the specialists tend to cluster in small firms, driven by the need for creative autonomy and the need for speed. If big business wants top notch specialists in certain fields, they go to small firms that specialize.

Big business has a growing stake in the health of the smaller companies that supply it. In some cases, as in high tech startups, big companies let smaller ones innovate, and then they buy up those smaller companies. In other words, it's like outsourcing their innovation.

It's not just the supply chain, where big business needs small business. Let's not forget that many big businesses sell to the small business market. Those small businesses are their customers.

Those big businesses that count the small business market as important to them read like today's household names: Microsoft, Google, Yahoo, eBay, Wal-Mart, Sam's Club, Dell, HP, Office Max, Staples, Office Depot; the list goes on.

Now, let's look at it from the small business perspective. You see a similar interdependency. Small businesses are invested in the success of big businesses. Why? Well, first of all, many small businesses depend on big businesses to be their customers.

The big companies are the market makers. Small startups also often look to larger companies for an exit strategy. They'd like nothing better than to be bought up by a big company.

Beyond that, small companies also depend on the products and services that big companies have created. In some cases, those products and services were created just for the small business market. The low cost, high quality products that big businesses sell to small businesses have transformed the way small firms conduct their businesses.

They've made it possible for small firms, and in particular, home based businesses to exist. They've leveled the playing field when it comes to the technology and tools that smaller firms need. If that's not an ecosystem, I don't know what is.

So, when you're negotiating for services, you need to buy something, just remember, you have more power than you think as a small business. Those big businesses need you.

That concludes Today's Trend.

I want to thank you so much for joining me. Do check the website for additional information and for podcasts of these radio shows at www.SMBtrendwire.com.

Join me next week same time, same place. I'm Anita Campbell.

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