The Options

As the internet continues to grow, customers increasingly expect to be able to order and pay for their goods online. For businesses, selling online is beneficial in terms of cash flow and also in admin time given that the process is almost fully automated.

It is very easy for your customer to make an order online and then for you to issue an invoice or wait for a cheque to arrive in the post in the normal way. However, buyers that use the internet do so for the speed and convenience and will want to make payment in the same quick and efficient manner. For this you will need special banking arrangements set in place.

As the customer is not physically present when you are processing the transaction there are higher risks of fraud with this type of payment. Banks will require you to comply with their strict procedures and accept a higher level of commercial risk than a conventional shop transaction.

The Options

There are three main options for accepting payments online:

- Using an internet merchant account from your bank
- Using a payment processing company
- Using an online shopping mall

They each have their advantages and disadvantages and which one you will use will depend on the size and nature of your business.

If your business already accepts credit card payments for shop transactions and you expect a large number of online transactions, then you should probably opt for the internet merchant account. It can be more expensive in terms of set-up fees and also getting approval from your bank but once operating the cost per transaction will be much less than the other methods. The higher the volume of transactions then the cheaper this option becomes.

If you do not already accept credit card transactions and you do not expect to have a large amount of online transactions straight away but you do value the ability to attract online sales more highly than the ability to collect sales income quickly, then you should consider the facilities that a payment processing company can offer, with the possibility of moving to a less costly option at a later date. Using a payment processing company is relatively easy to set-up and costs incurred are taken as a percentage of your transactions. However, your customers are often redirected to a third-party collection site and the cost per transaction is much higher than a merchant account. You may also have to wait a period of up to 60 days before you can withdraw funds from the account.

If your business is small and you do not currently have a web presence or the ability to take credit card sales then you may wish to use an online shopping mall. As part of the costs you will be purchasing a standardised web site and the ability to accept online payments. There is less flexibility for you and you often have to pay a set-up fee and monthly membership as well as a percentage of all sales done through the shop. This method is only recommended where the majority of your sales will be done offline but you do wish to have some sort of web presence.

The Costs

For an internet merchant account there may be a signing-up fee of around £200 and the daily charges may be a fixed fee or a percentage of each transaction as well as a monthly subscription. In addition, credit card payments may attract a commission fee and there are often fixed fees on debit card transactions.

For a payment processing company there is a typical annual fee of around £100 plus 4.5% commission on credit card payments and a transaction fee of around 50p for debit card payments. This is becoming an increasingly competitive market so it is worth shopping around for the best deals.

An online shopping mall may cost you up to £400 to join, depending on whether you already have a web site set up, and transaction charges will either be around 5% for sales through the mall or a cost per click payment if sales are directed to your own online processing method. As more and more businesses develop their own websites then the cost per click method is growing in popularity.

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