The Ins and Outs of Modern Payment Processing

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According to the World Economic Forum, we are experiencing the beginning of a cash revolution. The convergence of technological innovations in the telecommunication, banking and retail industries have moved us towards an increasingly cashless society wherein consumers are accustomed to and reliant on the convenience of paying alternatively. Many shoppers, especially younger ones, rarely carry cash at all, and checks are even rarer.

On top of that, the COVID-19 pandemic further advanced the move away from hard currency and towards cleaner, more efficient and contactless digital transactions. After more than a year of primarily online shopping, customers have new expectations and preferences for what businesses should provide for payment options. Small companies need to continually adapt in response, by combining the convenience of digital processes with the human element of face-to-face interactions.

Of course, as many business owners know, payment processing comes with a loss of value when a transfer occurs with third-party involvement, as opposed to the equal exchange of value that cash allows. However, if leveraged properly, digital payments can benefit businesses and consumers and ultimately generate more ROI.

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Payment processing needs to be integrated – incorporated into a system that communicates with all the other critical software a business uses. Done well, this means there's no need to switch between systems, which simplifies the checkout process and sends customers on their way with less time and hassle. Because, one customer expectation businesses can count on is the need for convenience; the faster a checkout is, the happier customers are. You can provide such convenience by securely storing card information for future visits, so that returning customers get even quicker touch-free transactions. Plus, when necessary, it allows service companies to easily charge for no-shows or cancellations.

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Integrated payment processing also allows consolidation of financial reporting, reducing human error and streamlining accounting. By synchronizing compatible accounting software systems with integrated payment processing (i.e., QuickBooks), companies can have all revenue processing data directly imported into their accounting system.

It's easy to overlook the importance of choosing the *right* integrated system, however; the initial approach might be to just take the card, get paid…the end, right? But paying attention to detail is critical. Just a one percent difference in each transaction fee can quickly add up to thousands of dollars. Some payment services may, for example, charge more in instances when the card isn't present, such as in over-the-phone payments. In the era of curbside pickup and contactless delivery, where customers expect to be able to pay offsite, this can significantly impact a bottom line, so small businesses must take note of these seemingly small matters.

Here are other terms you should know about payment processing:

- **Basis point(s):** A basis point is one one-hundredth of a percent (0.01%). Many of the fees in credit card processing are fractional percentages, so instead of saying “zero point zero one percent,” your processor may say “one basis point.”
- **Batch:** This is essentially a digital basket that collects transactions. It allows you to receive one deposit that includes multiple transactions instead of one per transaction. Usually, you’ll keep it open for a day (or create one per employee).
- **Discount rate:** A discount rate in credit card processing is not a discount in the traditional sense; in fact, it’s nearly the opposite of what you might imagine. It is, in fact, the percentage rate charged to your business for the credit card volume processed.
- **Interchange:** Interchange fees are charged by the card networks (Visa, Mastercard, Discover and Amex) that help facilitate transaction processing. These are charged to customers on an Interchange Plus pricing model and often appear on monthly statements as “interchange fees.”
- **Near-Field Communication:** NFC is the technology that makes Apple Pay and Google Wallet work. It allows some cards or cellphones to communicate payment information securely when tapped on or near a device.

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Businesses that still primarily use cash are losing time and money. And those aren’t the only losses: manually tallying services and add-on products is time-consuming and increases the likelihood of error. Even credit card processors require an extra step to manage tips, cancellation fees, membership billing or business’ finances as a whole.

Payments are no longer a passive part of business operations and the customer experience. Integrated processing provides new opportunities for companies to add value to services, and the post-pandemic world will not undo the technological advancements it necessitated. Payment preferences and best practices will continue to evolve, and small businesses will ultimately need to update them to keep current and grow.

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