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# Establishing Merchant Accounts

By Curtis Kleinman

**M**uch of the confusion when starting out in direct response surrounds the establishment and maintenance of merchant accounts. To set up a merchant account, a marketer will need to provide a Social Security number, or a SIN number or passport for Canadian citizens. Most applicants will also need to produce a driver's license, articles of incorporation, a voided check, and three months of bank statements to establish an account.

Once you have the basic paperwork in order, you'll have other questions surrounding your financial needs and merchant accounts. Here are the answers to a few common questions that can help demystify the process, keep your company in good stead with its banking institutions, and keep those dollars rolling in.

**How much time and money does it take to acquire a merchant account?** Establishing a merchant account can often be completed in an hour for products and services sold on a trial or continuity basis—especially if your website is set to go and all

paperwork is in order. But it's best to allow two to three weeks for testing to ensure that the account is functioning smoothly.

Startup costs to open a merchant account and a gateway are usually under \$100. For every merchant account, you need an associated gateway—systems set in place to facilitate face-to-face transactions and help with reporting and fraud. The most popular are *authorize.net*, USA ePay, and NMI.

**How much processing volume should I request?** If you ask for high processing volume or market a product that could be considered high-risk, you may be asked to produce additional paperwork. Be prepared with current business financials, P&L statements, balance sheets, tax returns, and telemarketing scripts to speed the process. Ask only for what you can safely assume will be enough to handle peak volume at the outset.

**How much will accepting credit cards cost?** The net effective rate is the total processing volume divided by all rates and fees combined. Total fees include the processing rate, charge-back fees, retrieval fees, statement fees, reversals, and transaction charges. Most marketers are shocked to pay a net



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effective rate higher than they anticipated. Swipe tells marketers to factor in 3.5 percent to 4.0 percent as a net effective rate. You should also consider accepting debit cards, which typically carry lower rates.

**What kind of reserves will I be expected to supply?** Reserves are considered on a case-by-case basis. Payment processors will look at the credit of the business owner, product, billing model, bank balance, requested processing volume, and advertising methods to determine how much of a reserve is necessary to satisfy the risk level perceived.

Payment processors' tolerance for risk varies. Some examine corporate

financials, tax returns, promotional materials, and telemarketing scripts closely; others will provide a path of little resistance. A good agent usually knows a bank's relative tolerance for risk and watches for changes in that tolerance.

Be prepared to offer a personal guarantee—that is, to assume personal liability for fees associated with your merchant account. The guarantee will take effect should you fail to have sufficient funds in your merchant bank account. You still may be approved for a merchant account without a personal guarantee, but your reserve may be higher, and your allotted processing volume may be lower.

**How can I avoid chargebacks, and what if they spike?** A chargeback is a refund initiated by your credit card company or bank; you can dispute it if you have evidence. Reversed chargebacks still count against your company, however, and cost you a reversal fee. If you make the refund process easy, you can avoid many chargebacks before they're attempted.

The first line of defense against unnecessary chargebacks is a proper billing descriptor. How your charge appears on customer credit card statements is very important. Customers who can identify purchases easily are less likely to initiate a chargeback or inquiry call, and processors charge for those calls. Use your product name or Web address and your company's customer service phone number as the billing descriptor.

If you get into chargeback trouble, a downward spiral of negative consequences can occur. Your merchant account can be shut down without warning; higher reserves may be withheld. Your rates can be raised by 3 percent or more above what you currently pay. And once you're in trouble, you won't be able to open another account. That's why you'll want to investigate multiple accounts from the outset.

**Do I need multiple merchant accounts?** Nutraceutical supplements,

skincare products, and downloadable products are good candidates for multiple accounts. The nature of the offer matters, too. Continuity payments, trial offers, upsells, cross-sells, and television-, radio-, and affiliate-driven sales should all be supported by multiple accounts. Media companies lending advertising dollars usually ask clients to obtain multiple merchant accounts, too.

Having multiple merchant accounts supplies greater processing volume, and can help track sales volume from different sources. But more importantly, multiple accounts can protect your business from unforeseen circumstances such as fraud or chargebacks. If you have a single account, such a problem can result in an account freeze, jeopardizing your ability to process all payments. Your banking institution may also adjust its risk tolerance at any time; it can ask you to leave and you will lose the ability to process credit cards immediately. Many DR marketers wait until they're in chargeback trouble or can't process payments before they try to open an additional account. And by then, it's probably too late.

**Should I use an agent?** Agents can help you place your business with one or more banking institutions appropriate to your business. An agent is not tied or loyal to any single payment processor or financial institution. Agents can also establish multiple merchant accounts at lower rates and never touch your money.

A good agent will guide you through the application process and paperwork to ensure approval under the best conditions for your

business. Agents will help answer questions regarding how much processing volume to apply for, and will alert you to the areas underwriters often scrutinize. An agent can customize the perfect plan for your business and ensure you never sign an exclusive agreement with the wrong payment processor.

If this is the first time you've considered these aspects of merchant accounts, you are not alone. In talking about the rapidly changing arena of payments processing, I can often teach 20-year veterans more about merchant services in 15 minutes than they knew previously. And the more that business owners, sales professionals, back-end support people, and account managers can learn about this aspect of the business, the more valuable they can be to their customers. ☒

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