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Third Party Credit Card Processing Vs. Having Your Own Merchant Account

By Josh Greth

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We all know that accepting credit cards is the key to online sales. Unfortunately, most merchants are unaware that acquiring a merchant account can actually save them money. And in many cases, big money!

For this experiment, we will use a fictional character named Bill. Bill owns and operates a great online resources for marketing tools and resources. Bills website is a membership based website, and therefore could potentially be approved for both third party processing and an internet merchant account. Bill starts off processing his business with a popular third party processor who offers him the following plan:

Start Up Fee None
Monthly Fee None
Transaction Fees 13.5% (Initial or One Time)
15.0% (Recurring)

Bills sets up his business with this popular third party processor and charges \$30 per month. He has built an extensive reciprocal link exchange directory, has purchased some PPC advertising on a few of the best search engines, and has reached a excellent spot in the content based search listings for the top 5 search engines. His customer base has grown from zero before accepting credit cards, to 150 members, is just one month. Bill can't believe his success at internet marketing, and is planning on building even more web based resources and tools for his website, thus increasing the value and content. He is ecstatic at the initial results, so let's take a look at Bills numbers:

$\$30 \text{ (Per Membership Sold)} \times 150 \text{ (Memberships Sold)} = \$4,500.00$

$\$4,500 \times 13.5\% \text{ (Initial or One Time Transactions)} = \607.50

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\$4,500.00(In total sales)
– 607.50 (Total fees)
= \$3,892.50(Net profit after all processing fees have been deducted)

Ok. Well Bill certainly had an excellent first month accepting credit cards with his new business venture. But let's see how Bill would have made out if he would have secured an internet merchant account for his new business:

Start Up Fee None
Monthly Fee \$15.00
Discount Rate 2.35% (Initial, One Time or Recurring)

Per Trans Fee .30 cents
Gateway Mo. Fee \$15.00
AVS Fees .10 cents

Now the first thing we see is that the merchant account company is showing us more fees. This may be disheartening at first sight, but we should really explore what these fees are, and how they affect our bottom line.

Start Up Fee: This remains the same. Bill paid zero to get setup with his new merchant account, just as he paid zero to get setup with the third party processing account.

Monthly Fee: The third party processor offered us no monthly fees, yet we must pay \$15.00 with the merchant account company.

Discount Rate: The merchant account has labeled one of their fees as "discount rate." These fees are the fees Bill will pay as a percentage of each transaction. They are similar to the main fee charged by the third party processor. This fee when charged by the merchant account company is substantially smaller than the high percentage charged by the third party processor. But we will wait till the end of this experiment to see who offers the better comprehensive deal.

Per Trans Fee: The merchant account company charges Bill .30 per transaction he processes through his merchant account. Of course, we have already established that Bill will pay no per transaction fees with the package he received from the third party processor.

Gateway Monthly Fee: Because Bill will also need an internet payment gateway for his merchant account to work online with his website, he will also be paying \$15.00 a month for his Gateway Monthly Fee.

AVS Fees: The AVS fee stands for Address Verification Service. Bill will want to use this service, to help reduce potential fraud, and customer chargebacks to his merchant account. He will now pay an additional per transaction fee of .10 per transaction.

Let's see the numbers behind processing with a merchant account as opposed to a third party

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processor:

\$30 (Per Membership Sold) x 150 (Memberships Sold)= \$4,500.00

\$15.00 (Merchant Account Monthly Fee)– \$15.00

\$15.00 Gateway Monthly Fee)– \$15.00

2.35% (Discount Rate) x \$4,500.00– \$105.75

.30 cents (Per Trans Fee) x 150 (Memberships Sold)– \$45.00

.10 cents (AVS Fees) x 150 (Memberships Sold)– \$15.00

Total Fees (With Merchant Account)= \$195.75

\$4,500.00(In total sales)

– 195.75(Total fees)

= \$4,304.25(Net profit after all processing fees have been deducted)

With the merchant account, Bill was able to keep substantially more of his sales for himself, as profit. Bill could use these extra resources to advertise more, expand his operation, and even hire someone to work for him, even if only on a part time basis. The point is that the better deal in credit card processing is always with a merchant account as opposed to using a third party processor. Most third party processors leverage the high levels of risk and chargebacks they must face everyday, by charging enormous fees and rates to their entire customer base. Third party processors are synonymous with Adult related websites. This is the reason for their increased exposure to risk. They must charge high rates to overcome the losses they are subject to by processing for a category of merchants that, unfortunate as it may be for them, falls into a certain level of risk and fraud that most other merchants do not. Because the merchant account company restricts its clientele to only companies with non adult related content, they are able to offer an entrepreneur like Bill, selling online content through his membership based marketing website, a much better deal in credit card processing.

\$4,304.25(Net Profit with Merchant Account)

– 3,892.50(Net Profit with Third Party Processing)

= \$411.75(Total Savings with Merchant Account)

This experiment has shown that the average website owner can save substantially by choosing wisely when it comes to their credit card processing solution. We have proved that most any entrepreneur can and will save substantial amounts of money by using a merchant account for their online credit card processing, as opposed to processing with a third party processor. In our little test, Bill saved \$411.75, and that was just in the first month alone. Remember, that the third party processor will charge more, 15.0% to be exact, per transaction, once the customer is charged on a recurring basis. This means that for the second month, Bill would have paid even more to his third party processor; \$675.00 to be exact! And that is just on the first months returning 150 customers. Every time Bill has a recurring payment processed through his third party processing account, he would be subject to a 15.0% transaction fee on all those sales. Not a very thrifty choice for credit card processing.

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As with any business decision, be smart. Compare rates and plans, and make sure the "simple" setup is really worth the cost. In most cases, your Merchant Service Provider can setup your merchant account in as little as 24 hours. This is faster than your third party processor, and adds even more value to the otherwise already vastly superior deal you are receiving with your very own merchant account.

Make the decision that is best for your business, and best of luck! Please visit Josh Greth at CardStreet.com.

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Josh Greth has developed, owns, and is the reigning CEO of CardStreet Cardservice Corp. To date, they have established over 100,000 successful merchants and helped make their dreams a reality, by creating a simple, yet cost effective, means of credit card processing. For more information on credit card processing, or to obtain your own merchant account for a retail, internet, wireless or phone/mail order business, please visit CardStreet.com.

Accept Credit Cards Online without a Merchant Account

By John Lynch

It is often assumed if you want to accept credit cards on your website that you must have a merchant account. This is not the case. You can accept credit cards with a Third Party credit card processor.

1) What is a Third Party Credit Card Processor?

A Third Party credit card processor is a company that will accept credit card payments on behalf of you or your company. The payments your customers make are processed through the Third Party's own merchant account, and you the retailer is paid (minus a commission fee) by the Third Party processor.

No need to pay for expensive processing software, monthly fees or minimum transaction fees. As you only pay a percentage fee on a sale, you cannot lose money.

2) Should I have a Merchant Account or Third Party Processor?

For most businesses this decision will be made according to the size of the company. Most small businesses do not need their own merchant account.

Small businesses are better off with a Third Party processor. The advantage is that when you sell your products, the Third Party processor takes care of the payment by checking the card, processing it, and sending you a monthly check.

Larger businesses with a bigger turnover are likely to need a full merchant account. You will pay a bigger set-up fee for an online merchant account but pay less per transaction than with a Third Party processor. So recouping your initial outlay.

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So there it is, unless you have a large business it is possible to accept credit cards online with a Third Party processor.

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[For details of Third Party credit card processors and online merchant accounts visit:

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Accept Credit Cards Online without a Merchant Account
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How Nice Guys, Shy Guys and Good Guys Finish First!



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