Merchant Account Implementation Guide for Web Hosting Providers

By Chris West, CDGcommerce

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As a Web Hosting Provider, your payment processing needs are quite different than that of many other business models. To effectively implement a merchant account & e-commerce solution, you will need to put together several key components and each of these components must be able to "co-exist amicably" with one another.

The three components to the solution are: (1) Merchant Account -- with a qualified merchant processor who can adeptly handle your kind of transaction business, (2) Payment Gateway -- with the technical capabilities & compatibility that you need and (3) Billing Application -- either a custom order forms, e-commerce script or 3rd party billing software package.

Step One -- Select a Merchant Account

With respect to your choice of an appropriate Merchant Account, it is important to keep in mind a number of important attributes.

Risk Management

Risk Management is by far one of the single most important aspects of merchant accounts for Web Hosting Providers. It is also one of the areas that most merchant processors discuss the least when you speak with them. The way that risk management is handled by a merchant processor can literally make the difference between a Web host staying in business or not, at the most extreme situations… and it can make a huge difference in cashflow in many other circumstances.

You will want to make sure that your merchant account provider doesn't unreasonably hold funds for an extended period of time and that they won't turn you off if you have a chargeback or two. Unfortunately, these exact kinds of situations happen every day with Web hosting providers and so it is very important to make sure that this won't be the case with a merchant provider that you get setup with. The best bet is to check their references and make use of industry forums to see what other merchants' experiences with the provider have been like.

Foreign Transactions

Some merchant processors disable or disallow processing of credit cards to certain foreign addresses. They do this because of the higher risk present on those transactions but -- this also means that you will lose out on some legitimate sales in foreign locations.

While the reasons behind some of these actions are understandable, you will at least want to get a solid answer as to whether transactions will be screened or disallowed by your merchant processor from certain areas... or whether they will allow you to make the judgment call on your own as to whether or not to process the sale.

Technical Integration Expertise

Many merchant processors are more familiar with "card present" merchants such as bricks 'n' mortar retail stores, restaurants, hotels, etc. These processors don't always have a very good grasp on Internet payment processing and thus are unable to provide a detailed level of assistance to any technical hurdles that you might run into.

A good question to ask when interviewing a prospective merchant account provider is: what percentage of your total merchant portfolio is Internet merchants or Web hosting providers? That will give you a sense as to their focus.

You will definitely want to select a merchant account provider that is focused on serving the needs of Internet merchants and Web hosting providers, if at all possible.

Choice of Payment Gateways

It is important to select a merchant account provider that is willing to offer you a choice of multiple payment gateways. Make sure to avoid signing up with a merchant account provider who only offers one gateway and doesn't give you the flexibility to change it at a later date.

In addition, make sure not to pay an unreasonable amount for your payment gateway setup. Most payment gateways can be setup these days for $300 or less.

Rates & Fees

Even though merchant account pricing is an entire article's worth of content to itself, as a Web Hosting Provider you will want to pay special attention to fees like AVS fees, per transaction fees and any "surcharge" costs such as mid-qualified or non-qualified fees. These surcharge (also called "downgrade") costs will apply on certain transactions and you will want to make sure that you understand the true transactional costs that apply on each sale.

One of the best things that you can do is to put together an Excel spreadsheet and write down all of the rates and fees and then run it under various conditions of sales volume, # of individual transactions, and so forth.

An important question to ask of any prospective merchant provider is how many billing tiers there are and how transactions qualify for the various tiers and what is specifically required in order to get a qualified transaction rate.

For instance, some providers have three billing tiers – qualified, mid-qualified and non-qualified – and there are many examples of rate structures whereby 50-60% of all transactions will be downgraded to higher % rates, thus costing the merchant quite a bit more than they ever anticipated.

In contrast, some merchant providers have only a two-tier billing structure of qualified & non-qualified which is generally more beneficial. However, even the qualifications from one processor to another will vary in terms of what kinds of transactions are billed on what tier. Thus, it is very important to get specific details on this from any merchant provider that you interview.

Building a spreadsheet and calculating in the above information will thus give you a very clear picture of the costs involved in setting up and running your merchant account.

Monthly Minimums & Annual Fees

Smaller Web Hosting Providers -- especially those just starting out or processing under $1,000-1,500 per month in volume â€" will want to make sure to select a merchant account provider that will completely waive their monthly minimum requirement.

In addition, ask about any annual fees that may apply to your account. These are sometimes hidden in the fine print but they are important to know about. Remember -- if you divide out a $100 annual fee by 12 months, that equates to paying an extra $8+/month in service fees.

Taking these steps will save the Web host approximately $300-400/year or more in unnecessary fees and expense.

Termination/Cancellation Fees

The last item to be wary of are the termination & cancellation fees that may apply to a given account. Some merchant processors assess a very hefty penalty fee if you close your account prior to the end of the 12-36 month agreement term… a few companies charge as high as $1,500 and it is not uncommon to see a termination fee of $250 or more with many processors.

See if your provider is willing to reduce or waive this fee entirely. After all, you don't want to risk exposing yourself to a huge fee if you decide to sell your company early on or if the merchant processor doesn't work out well for you and you want to switch your account elsewhere.

Step Two -- Select a Payment Gateway

There are quite a few Payment Gateways that a Web Hosting Provider can select from. It is usually best for your merchant account provider to also setup the Payment Gateway to ensure a seamless setup and activation that is 100% compatible with the merchant accounts designated processing network(s).

There are many other gateway options available such as Authorize.Net (http://www.authorize.net), CDGGateway (http://www.cdgcommerce.com), Plug-N-Play (http://www.plugnplay.com), eProcessingNetwork (http://www.eprocessingnetwork.com), Verisign PayFlow (http://www.verisign.com) and CyberSource (http://www.cybersource.com).

Each of these other gateway options has their own distinct set of advantages and disadvantages, as described below.

Authorize.Net
The most ubiquitous payment gateway is Authorize.Net (http://www.authorize.net). Boasting more than **90,000+ merchants at the time of this article, Authorize.Net's** most significant advantage is that it is compatible with virtually every 3rd party shopping cart and billing application ever written. The downside is that Authorize.Net is not quite as cost effective as some other gateway options -- especially with respect to their recurring billing system -- and they have some very stringent rules regarding content which affect a certain portion of Web Hosting Providers.

CDGGateway

The CDGGateway gateway has the benefit of providing 500 free gateway transactions/month as well as a free built-in fully automated recurring billing system. It is very easy to integrate and very cost effective. A Web Hosting Provider selecting this gateway can typically implement a complete Recurring Billing system end-to-end within an hour or two. CDGGateway supports AVS, CVV2 and includes an IP-based filter as well as a Velocity Filter. More fraud scrubbing features are in the works and will be available in the near future.

CDGGateway also includes an Authorize.Net Emulator that can be used to quickly port Authorize.Net applications over to this gateway without an extensive code re-write. CDGGateway offers both an HTML and XML interface, with 3rd party ColdFusion modules and sample Perl & PHP & ASP scripts available. There are **currently 15,000+ merchants utilizing CDGGateway's technology platform.**

Plug-N-Pay

Plug-N-Pay has several interesting features and options that are unique to it -- including QuickBooks integration and can be a good choice for businesses that require that kind of specialized functionality. Their FraudTrak 1 & 2 system is designed to help merchants minimize the risk of fraudulent orders. Plug-N-Pay also offers a Recurring Billing system, an E-Download module and a Membership / Subscription system along with an Affiliate Tracking & Coupon module and a free built-in shopping cart with the gateway.

eProcessingNetwork

The eProcessingNetwork gateway supports many of the same features as Authorize.Net and has an AuthNet "emulation mode" that can be a nice substitute. It is priced comparably to Authorize.Net and it is relatively easy to integrate. This can be a nice fit for merchants that need the compatibility of Authorize.Net but don't want to use AuthNet itself.

Verisign Payflow

Verisign's PayFlow gateway is used by a number of high volume merchants and may be a good fit for a very high volume merchant needing to process thousands of daily transactions. The pricing on this gateway is often prohibitive for many merchants.

CyberSource

CyberSource's economical gateway solution for small businesses is a relatively new entry in the marketplace. However, CyberSource itself has been around since the dawn of the Internet and processes more transaction volume than any other gateway system due to its Fortune 500 clientele. The CyberSource system has many multiple points of redundancy and is an industrial strength solution capable of processing millions of daily transactions for its client base.

Step Three -- Select a Billing Application / Methodology

There are numerous ways to integrate into your selected Payment Gateway. The best solution for you will be determined by your timetable, your budget and your specific objectives.

Pre-existing Billing Packages

One way is to use a pre-existing 3rd party billing package. The nice thing about using an "off the shelf" **package is that you don't** have to spend very much time to integrate it, you won't have to worry about supporting and improving it over time and you can deploy it faster in many cases. The other advantage is that some 3rd party packages can actually automate the setup of your hosting accounts by integrating with your server admin GUI -- such as CPanel.

A few of the most popular 3rd party billing software packages are listed here:

http://www.whoiscart.net

http://www.clientexec.com

http://www.whmautopilot.com

http://www.modernbill.com

My advice is to always check out user reviews, look carefully at the feature sets and compatibility information and -- best of all -- make full use of the free trials and online demos offered by most of these companies.

In addition, make sure you fully understand exactly HOW the billing software runs recurrings. Does it store the data locally and transact it automatically? Or does it send out an invoice and then you will be counting on customers to "opt-in" and make payments each time?

Custom Order Form / Built-in Recurring

Your next option is to use a payment gateway with an easy-to-use built in recurring billing system and simply create a properly formatted order form on your Web site. For instance, CDGGateway offers a completely automated recurring billing system built-in... all that a Web host has to do is create a few simple forms and configure a "recurring recipe" online and then they can begin setting up recurring subscriptions -- either through the virtual terminal or by a customer order form on their Web site.

The cost to deploy this solution is very low and anyone with a little HTML and/or limited CGI programming knowledge can readily implement this. The advantage to this method is that you avoid the cost of having to purchase a license & support from a 3rd party billing package, you can still get online just as quickly -- sometimes even faster -- and your recurring billings are securely handled for you without the requirement to store that data on your own server.

The only disadvantage is that this method of implementation does not offer all of the nice "bells and whistles" or the seamless account setups interaction provided by the more expensive and extensive billing software packages.

Complete E-Commerce System

For Web hosting providers with very advanced or specialized integration needs, it is naturally possible to build your own complete end-to-end system. You could securely arrange to store your own billing data and merely use the payment gateway as a transaction conduit.

The advantages to this method of implementation are that you have 100% control over every aspect of the billing system. The drawback is that you also have higher financial exposure and security issues to contend with as well as having to incur the time & cost of building a completely customized billing system.

Summary

Even though it may seem daunting at first, it is readily possible for a Web Hosting Provider to setup a very cost effective and hassle-free Merchant Account, Payment Gateway and Billing System for their customer subscriptions. By following the steps outlined above and taking the time to properly interview each prospective provider, the entire process can be accomplished in a relatively short period of time and the end

result can be a highly convenient and cost effective solution that lets you focus on the most important thing - growing your Web hosting business.