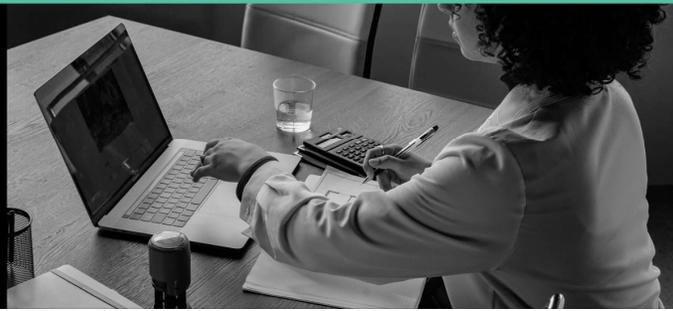


Payment Processing

Buying Guide



Introduction

Payment processing is a complex and fast moving field, with new technologies and improvements coming to market regularly. The purpose of this guide is to look at the key components of any solution, the different types of solution (Full Stack vs Point) and key areas to understand when entering into negotiations with any providers for their services.

This guide aims to provide an overview of key considerations for businesses navigating the payment processing landscape. It outlines essential components such as merchant acquiring, payment gateways, and fraud prevention while addressing common challenges like complex pricing structures, integration difficulties, and contractual obligations. The guide also highlights the cost and technology implications, helping businesses evaluate whether a full-stack or point solution best aligns with their needs.

Key factors include understanding pricing models, ensuring system integration, and prioritizing customer experience through robust payment methods and fraud tools. Additionally, businesses are encouraged to assess providers based on their technological strengths, global reach, and customer support capabilities to ensure a tailored solution.

Key Components

Component	Description
Merchant Acquiring	This involves the movement of funds from the customer's bank account to the retailer's/merchant's bank account and includes the use of an acquirer bank. It is the process by which a merchant accepts payments from customers via credit or debit card.
Gateway	The gateway refers to the technology and interface that sits between the retailer's web platform and the acquiring bank. It also transmits the data to the issuing bank to complete the transaction. The gateway is the software used at the point of sale to facilitate and process transactions. It also acts as an intermediary between the retailer and the payment processor. A good payment provider will ensure direct integrations with Alternative Payment Methods (APMs), to avoid customers being redirected away from the payment page, which can lead to dropped baskets
PEDs (Payment Entry Devices):	These are the terminals in physical stores that facilitate transactions. They act as the interface between the retailer's web platform and the acquiring bank, passing data to the issuing bank to complete the transaction. PEDs can be purchased or rented, and each option has different associated costs.
Fraud	Every online transaction undergoes a fraud check. The data is scored and the transaction is either approved or declined. Fraud solutions analyse data such as IP address, delivery

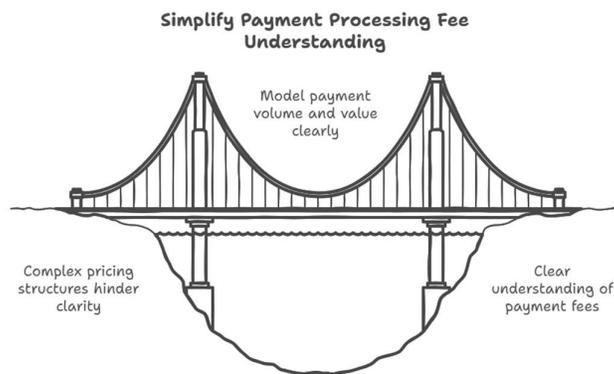
postcode and bank details, to identify potential fraud. Transactions can be declined as a "hard decline" if they are considered fraudulent, but can also be declined as a "soft decline" if there is a mismatch in the data provided, such as the way the postcode is entered. Some providers offer AI software that amends data to improve authorisation rates.

Common Challenges

Common challenges that businesses face when they are looking to appoint a new provider for all or part of their payment processing provision include:

Navigating Complex and Opaque Pricing Structures

Payment processing fees are often complex and can be difficult for businesses to fully understand. Fees are typically determined by the volume and value of sales being processed. It is essential that you understand the volume and value of your payments and model these out across the duration of any proposed engagement



Acquiring costs are split into interchange, scheme fees, and a margin. Historically, these were presented as a "blended" rate, making it difficult for merchants to understand what they were truly paying. While the "Interchange++" model separates these costs, businesses must still carefully analyse these components.

Additional charges can include fees for fraud screening, gateway services, chargebacks, tokenisation, account updates, and 3DS exemptions, and they can vary depending on the provider. Some providers charge for refunds, while others do not.

Some providers have complex pricing models that may involve hidden costs or that are difficult for some businesses to understand.

It is essential to calculate the bottom-line cost rather than focus solely on headline rates.

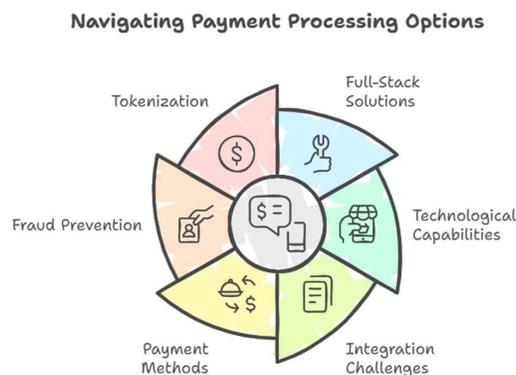
Choosing Between Diverse Technological Solutions and Integrations

Businesses must decide between a "full-stack" solution, where one provider manages all aspects of payment processing, or using separate providers for individual services. A full-stack solution can provide an omnichannel view of the customer, but may not be the most cost-effective option

Payment providers offer varying levels of technological capabilities. Some excel in online payment processing, while others are stronger in in-store processing. For example, some providers are more tech-driven and offer a better customer experience.

Integrating with various systems such as web platforms and finance systems can be challenging and it is important to ensure that the chosen provider can integrate with these.

A payment provider must support the necessary payment methods, including credit/debit cards, mobile wallets, and alternative payment methods (APMs). Direct integrations with APMs are important to prevent customers from being redirected away from the payment page, which can lead to dropped baskets.



The payment gateway, which sits between the retailer's platform and the acquiring bank, must be considered. The technology and interface that the PEDs use in-store if these are required is also an important consideration that needs to be factored into your thinking.

Fraud prevention is a crucial factor, and providers offer different tools and methods to identify and decline potentially fraudulent transactions. Some tech-leading

providers have built AI-learning software that can improve authorisation rates by automatically adjusting data.

Tokenisation can help to reduce dropped basket rates, but businesses must consider whether this is a service offered by the provider, and whether there are associated costs.

Balancing Your Business Needs with Contractual Obligations and Provider Limitations

Contract Length: Payment providers often try to lock retailers into long contracts, typically 2-3 years, which can be restrictive.

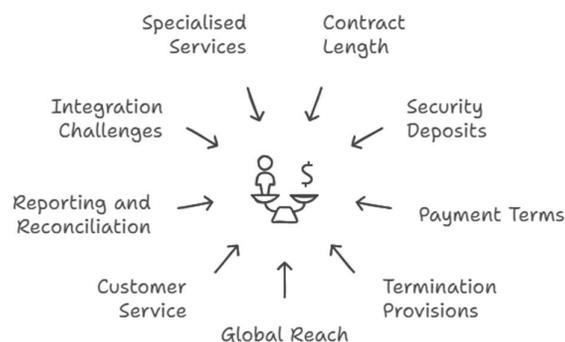
Security Deposits: Some providers may ask for a security deposit which should be resisted as part of a negotiation.

Payment Terms: Industry norm is T+1, however some providers may propose T+3 or more.

Termination Provisions: Contracts can have lengthy termination provisions.

Global Reach: Some providers offer better international reach than others and may or may not be able to take shop transactions in certain territories. It is important to ensure that a provider can operate in the territories needed, and can support the payment methods required.

Factors Influencing Payment Processor Selection



Customer Service: Some providers may have weaker customer service which can reflect badly on your business in the eyes of your customers

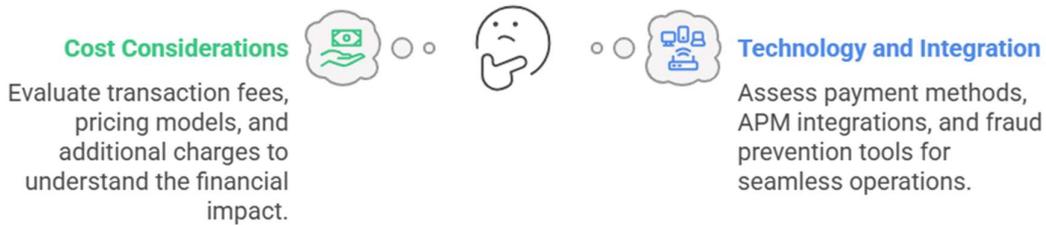
Reporting and Reconciliation: Businesses need to ensure that their finance teams can reconcile funds without issues and that the provider can provide the required reports.

Integration Challenges: Some providers may not be able to integrate with all of the existing systems and some systems may have limited integration with other software.

Specialised Services: Businesses with unique needs may need to seek out payment providers that have a specific industry focus or service offering.

These challenges highlight the importance of a thorough and well-informed approach when selecting a payment processor to ensure that the chosen solution is the best fit for a business's specific needs, budget and long term goals.

How to choose the right payment processing strategy?



Cost Considerations

Transaction Fees: Payment processors typically charge fees per transaction, and these can vary based on the type of card used (credit, debit, corporate), and whether the transaction is domestic or international. These fees usually include interchange fees, scheme fees, and a margin taken by the acquirer.

Pricing Models: Understanding pricing models like "Interchange++" is crucial, as this model separates out costs, allowing businesses to see exactly what they are being charged

Negotiable Fees: The margin charged by the acquirer is the only fee that is usually negotiable.

Additional Charges: Businesses should also be aware of other potential charges such as those for fraud screening, gateway services, chargebacks, tokenisation, and account updates.

Hardware Costs: If physical terminals are required, the cost of purchasing or renting these should also be considered, as well as any warranty or maintenance costs.

Technology and Integration

Payment Methods: Businesses need to consider if the payment provider supports the necessary payment methods, including credit/debit cards, mobile wallets, and alternative payment methods (APMs).

APM Integrations: Direct integrations with APMs are important to prevent customers from being redirected away from the payment page, which can lead to dropped baskets.

Gateway Technology: The technology that sits between the retailer's platform and the acquiring bank and also passes data to the issuing bank must be considered, as well as the features of the PED terminals in store.

Tokenisation: The ability to create tokens for returning customers can help reduce dropped basket rates. A full stack solution can identify customers both online and instore if the same card is used.

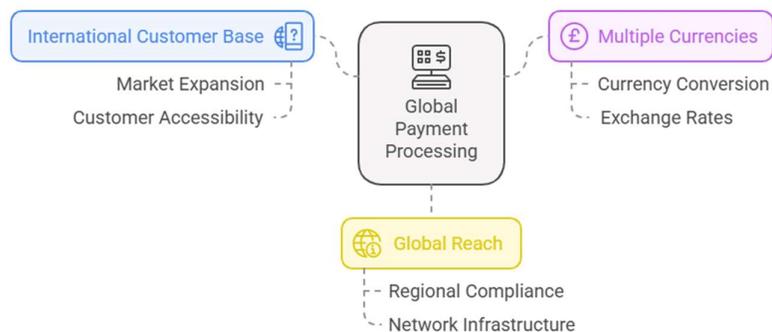
Fraud Prevention: Robust fraud prevention tools that can identify and decline potentially fraudulent transactions are crucial. Some tech-leading providers offer AI-learning software that can amend data in nano-seconds to improve authorisation rates.

System Integration: The payment processor must integrate with the various systems a business has in place, such as web platforms and finance systems

Additional Factors & Business Requirements

Omnichannel: Businesses may need an omnichannel solution that provides a shared experience across all platforms, allowing them to track customer spend across both online and in-store purchases.

Global Reach: If a business has an international customer base, the payment processor must support multiple currencies and have a global reach.



Reporting and Reconciliation: Finance teams need to be able to easily reconcile funds and have access to clear reports from the payment processor.

Specialised Services: Businesses with specific needs may look for providers with specialisations in their industry.

Authorisation Rates: Businesses should be aware of the authorisation rates that a payment provider can offer. A higher authorisation rate can lead to an increase in sales received, but it must be balanced against fraud risks.

Speed of implementation When a business expands it might need a fast roll-out of services.

Customer Service and Support

Support Quality: Some providers have been criticised for poor customer service, which can be problematic when issues arise.

Account Management: Some larger businesses may benefit from dedicated account managers.

Contractual terms

Contract Length: Businesses should be cautious of lengthy contracts as it can be costly to change providers later.

Security Deposits: Some payment processors may ask for a security deposit, which should be resisted.

Payment Terms: Payment terms such as "T+1" (transaction date plus one working day) should be clear and followed by the payment processor. Some may offer faster options at an additional cost.

Termination Provisions: Businesses need to be aware of any termination provisions in the contract, as they can be lengthy.

Provider Specifics:

Provider Strengths and Weaknesses: Different providers have their own strengths and weaknesses, with some being better for online payments, others for in-store processing, or international transactions. Some may have a better technological offering, others may have lower costs.

By carefully evaluating these factors, your business can choose a payment processor that best fits their specific needs, budget, and customer base.

Full Stack or Point Solution?

Which payment processing solution is best for your business?



Full Stack Solution

Enhances customer experience and simplifies management



Point Solution

Offers specialized services but complicates management

We have touched on the different types of solutions that exist, but which is right for your business.

Full Stack Advantages

Omnichannel View and Enhanced Customer Experience: A "full stack" solution, where one provider manages all four payment processing components (merchant acquiring, gateway, PEDs, and fraud), allows for an **omnichannel view of the customer**. This enables a merchant to track a customer's spending habits across both online and in-store purchases. With this comprehensive view, merchants can offer services like in-store returns for online purchases and create targeted marketing campaigns based on customer shopping habits. This integrated experience is not available when services are split across different providers. The ability to identify a customer both online and in-store using the same payment card token, provides powerful data for targeted marketing.

Simplified Reconciliation and Management: By using a single provider for all payment processing needs, businesses can **simplify reconciliation**. When payment methods have direct integrations, the finance team only needs to process one reconciliation. This reduces the administrative burden and the potential for errors that can occur with multiple providers. Additionally, the merchant benefits from having a single point of contact for all payment related issues, rather than having to deal with multiple providers.

Potential for Cost Savings: Although some providers may be more expensive, using a single provider for all payment services can often lead to **better rates due to increased volume**. Pushing as many services as possible through one provider can result in better negotiation power and therefore more competitive pricing. A "full stack" solution will also typically offer tokenisation, which can reduce dropped basket rates and increase sales, therefore having a positive impact on revenues and profits.

Point Solution Advantages

Best-in-Class Technology: By choosing point solutions, a business can select the **most technologically advanced option** for each element of payment processing. Some providers offer specific strengths, such as superior online payment processing, advanced fraud prevention, or better in-store processing capabilities. This allows businesses to avoid being locked in with a provider that is not strong in all areas, and ensure that they have the best technology for each element of the payment process. For instance, some tech-leading providers have built AI-learning software to improve authorisation rates.

Specialised Services and Customisation: Point solutions enable businesses to select providers that **meet their specific needs**. For example, a business with a high volume of overseas traffic might use a local acquirer to process those transactions. Similarly, a business might have very specific reporting or integration requirements that are better met by a specialist provider. By choosing point solutions a business can create a payment processing system that is tailored to their unique needs.

Cost Efficiency and Flexibility: Point solutions allow businesses to select the most **cost-effective provider** for each specific component of the payment process. A business might choose a tech-enabled gateway but a more cost-competitive provider for the acquiring element. This flexibility enables businesses to avoid the potential higher costs of a "full stack" solution and to balance their expenses. Because **volume is often a key component in negotiations**, pushing as many services as possible through one provider will usually get better rates, but some providers are more expensive. Therefore, by selecting different providers, a business can ensure it is not paying higher rates in areas that are not as important to the business.

Conclusion

Selecting the right payment processing solution is a pivotal decision that impacts customer satisfaction, operational efficiency, and business profitability. By thoroughly evaluating their unique requirements, cost structures, and technological needs, businesses can choose between a streamlined full-stack provider or a tailored point solution. A thoughtful approach ensures alignment with long-term goals, enhanced customer experience, and optimised operational outcomes.

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