
WebReserv

Introduction To Online Payments

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Your business is ready to launch. You created a new website to increase customer traffic. You integrated the booking system directly to your website in order for your customers to be able to view availability and book your vacation rental, B&B, RV rental or other service online.

But one question remains unanswered – when and how should I charge my customers or guests for online bookings?

You'll find the answer to most online payment questions in this easy introduction to online payments.

2 Comparing payment options: Credit cards, PayPal and Checks/Cash

With online bookings you have several different methods for receiving payments from your customers. Which method applies to you depends on several factors, including the volume of bookings and the value of each booking.

2.1 Credit cards

Many businesses require a credit card to reserve a product or service. The reason is simple; credit cards allow the business to receive the payment right away. In most cases, the booking process is automated and will not even allow a booking to take place unless the customer provides a valid credit card.

Since credit card payments can be automated, businesses with many bookings tend to prefer this payment type. Another benefit of credit card payments is that many online booking systems keep the credit card on file. By keeping the credit card on file, the business can charge remaining outstanding deposits to the same card.

In order to process credit card payments, you must set up a merchant account for your business. The merchant account functions as a connection between the credit card companies and your bank account. Many banks provide this service, but specialized merchant account providers (also called ISO's) may offer better terms and are typically more familiar with online payments and credit card terminals.

The one drawback with credit card payments is the cost. It is common to pay \$25-\$30 per month just for having the merchant account, whether you use it or not. In addition to the monthly fee for the merchant account, you will be paying a transaction fee for each transaction. The transaction fee may either be a percentage of the amount or a percentage of the amount plus a fixed fee per transaction, typically \$0.30.

The transaction percentage, often called the discount rate, depends on the merchant account provider, your industry and your sales volume among other factors. It is common to have transaction fees around 2.5% - 3.5% of the total sale.

It can be worthwhile to shop around between different merchant account providers to find the best option (low transaction cost and monthly fee). However, bear in mind that you also want to use a merchant account provider or bank that understands your business and online

transactions. You also want to make sure that your merchant account is compatible with your online booking system.

2.2 PayPal

PayPal was invented to create a method for people and business to transfer funds electronically without having to go through the hassle and cost of creating a merchant account. It quickly became the preferred payment mechanism for companies like eBay. Although PayPal has gained some traction outside of eBay, it is still more common for most business to accept credit card transactions over PayPal transactions.

In order to accept PayPal transactions, you have to create a PayPal account. It's free and can be done in just a few minutes. With PayPal you can accept payments from other PayPal users. You can also upgrade to a business account and accept credit card payments from non-PayPal users. In this case, PayPal essentially becomes the merchant account for you.

PayPal charges a small fee for PayPal-to-PayPal account transfers and a larger fee for credit card payments through PayPal. For business with high volume of credit card transactions, it is worth comparing Merchant Account and PayPal rates.

There are some drawbacks of PayPal compared to credit card payments. Most importantly, PayPal payments go to a PayPal account and you will have to transfer the funds to your own bank account. While the funds are transferred around the PayPal system, and until the funds are transferred to your bank account, PayPal earns the interest, you don't.

With PayPal you don't have a credit card on file. This is an issue in cases where the business needs to charge outstanding deposits to the same card. With a credit card/merchant account, you can charge the balance due, but with PayPal you'll have to ask the customer to initiate the funds transfer.

2.3 Checks/Cash

The use of checks (or cash) for deposit payment is declining for many businesses. There are two reasons for this; the use of checks delay the payment processing and introduces manual labor in the process. First you have to wait for the check to arrive in the mail. Secondly, you have to bring the check to the bank and sometimes you have to wait for the check to clear depending on the amount and the state in which the check is drawn.

In total, you should expect 10-15 days processing time for checks. The booking must be held during this time. This is important to take into considering, especially for bookings in the near future.

For example, say that a booking is made for your vacation rental one month from today. You receive the check in the mail and give it to the bank but unfortunately the check bounces. You cancel the booking. Now you only have 15 days left to rent out that same time that was held for this booking, and it will often be difficult to book another customer in such as short timeframe.

Tip: You can reduce the clearing time by requiring your customers to send a cashiers check.

3 Charging a deposit

You should require an initial payment, the **deposit**, at the time of booking. The deposit payment is a down-payment for the service and serves to keep the customer committed to the booking. If the customer later cancels the booking, some or all of the deposit may be refunded to the customer depending on your business rules.

If there is no deposit, the customer may not show up (often called a no-show) and you have lost revenue by keeping the service or unit reserved.

The deposit amount depends on the type of product or service, the value of the booking and the difficulty it will be for you to sell the same product or service later on if a customer decides to cancel a booking.

Below are some industry examples of typical deposit rules:

Industry	Typical deposit Rules
Vacation Rentals	50% at time of booking, remaining amount due 60 days before date of arrival
B&B	50% at time of booking, remaining amount due 60 days before date of arrival
Hotels	Many hotels do not require a deposit, but keeps the credit card on file in order to guarantee the room. They will typically charge for 1 day for no-shows.
RV's	25% at time of booking, remaining amount due 60 days before rental.
Boat Rentals	100% at time of booking
Tours	100% at time of booking

4 Safe payment Tips

The following is a list of safe payment tips.

- Never request credit card information through emails or unencrypted websites. If you need to get a credit card number from a customer, call them or ask them to call you with the credit card information.
- When processing refunds, always refund to the credit card that was used to make the payment. Never allow a refund to a different card, as it can be part of a fraud scheme using stolen credit cards.
- Do not send cash in the mail and don't ask your customers to send cash in the mail either. Only checks should be mailed.
- Similar to credit card refunds, be cautious about check refunds. Do not refund a check payment until after the check has cleared. Scammers have been known to send stolen or fraudulent checks and shortly after cancel the booking and asking for a refund.
- Always keep customer credit card information stored securely. When you use WebReserv.com or WebReserv.eu, all customer and payment information is encrypted with the same safe encryption methods used by banks and credit card companies (SSL or Secure Socket Layer).