



Online Accounting Software

TYPES OF

PAYMENT

GUIDE



Why you need to think about how you get paid

If your business is successful, you'll need to find the best way to process payments for your goods or services – and hopefully plenty of them. After all, payments from happy customers is what will keep your business going.

These days electronic payment is rapidly pushing aside cash and cheques as the dominant method of payment and new technologies are set to bring even more changes in the future.

So, what are the options open to your business? What are the advantages of the different methods in terms of convenience, security and costs?

Remember, making it easy to pay for your goods and services is one factor that might attract more customers – and bear in mind that while one payment method will suit transactions with other businesses, individual customers might want to pay you in a different way.

Cash

Cash has been around for about 5,000 years and still has benefits that we sometimes take for granted. The biggest plus point is that there's no delay in getting paid. There's no third-party involved, so you can immediately spend cash or convert it into other forms of value. Cash doesn't involve any transaction fees and no special hardware, technology or knowledge is required to complete a transaction. In fact, some businesses will offer customers discounts for payments in cash.

However, there are good reasons why more and more people are moving away from using cash. Cash can be used by anybody, without proof of ownership, and so has always been an easy target for thieves. And obviously cash is impractical for larger purchases because you'd need several suitcases to carry all those notes.

If you are going to take cash payments, you'll need an adequate 'float' so you can give customers change, somewhere secure to store the money and then find time to bag up your takings and take them to the bank.

Some might suggest that it's an advantage that cash payments can be hard to identify and leave no paper trail or digital evidence so they stay 'under the radar'. However, don't forget that cash must be declared to the Revenue Commission so you'll need to keep good records in case the taxman comes calling.

Finally, there's the simple fact that increasing numbers of your customers might not want to pay in cash because it's not the most convenient option anymore.

Cheques

Use of cheques is very much in decline. From 19th September 2014 Irish Government Departments, Local Authorities and State Agencies are no longer accepting cheques in their dealings with businesses. So, receiving payment by cheque is not an option for any business supplying goods or services to the public sector after September 19th.

Ireland is one of only a few EU Member States that still makes use of cheques as a regular payment method. They're still used for business-to-business transactions and for many smaller businesses and sole traders. It's also worth noting that for some customers, cheques are still the favoured way to pay: around 70% of the over-65s continue to use them.

The major disadvantage has always been the length of time it takes a cheque to clear. Under the present '2-4-6' timescale, it's only on the sixth day after depositing a cheque in your account that you can be certain that the money is yours and that the cheque won't 'bounce'. However, cheque imaging, which involves sending a digital picture of a cheque for clearing, rather than the actual piece of paper, is set to be introduced soon and will allow cheques to be cleared in just two days. This will also end the inconvenience of having to go to your bank to deposit the cheque.

On the plus side, a properly made out crossed cheque is a safer form of payment than cash. Of course some business bank accounts come with transaction charges for paying in cheques. Shop around for the best deal.

Chip and PIN

Hugely popular with customers who prefer the convenience and simplicity of paying by debit or credit card at your premises.

You'll need to set up a merchant account – a special type of bank account for chip and PIN transactions. The money will then be cleared down into your main bank account. Shop around as these accounts usually come with transaction fees.

Next you'll need a chip and PIN machine, on which you can expect to pay a monthly rental fee. Most machines will require a power source and a phone line, although mobile versions are available.

Chip and PIN has significantly cut debit/credit card fraud, but it's not foolproof. Typically, when a bank refunds cardholders who've been the victim of fraud you will not only lose your income for the goods/service but also have to pay an administrative charge to the bank.

Phone

Often referred to as one of the 'cardholder not present' (CNP) methods of payment. Being able to take money over the phone can be very useful and payments can be processed through most standard chip and PIN machines. However, because it's difficult for you to be sure the person on the phone is who they say they are, card-processing banks often refuse to take any responsibility for fraud and your business could be left out of pocket. Alternatively, a number of companies provide specialist software and web-based services for processing cards.

Online/e-commerce

The fastest-growing way of receiving payment is online and so, even for quite small businesses, it's becoming essential to be able to process payments through your website. Of course, this means your customers can buy your goods/services from anywhere at any time as long as they have an internet connection.

You'll need a specialist e-commerce merchant account, normally separate from your chip and PIN merchant account. Once you have your merchant account you'll need a payment gateway. This is the bit at the end of your online checkout process that actually takes the money and is often provided with your e-commerce account. There will be fees associated with both the e-commerce merchant account and the payment gateway.

Finally, you'll need to have a 'shopping basket' function on your website, allowing customers to browse and choose what they want to buy and you to manage your online 'shop'. Unless you're a web expert yourself, you'll have to pay someone to do this for you. Security is essential for both your business and your customers so shop around for e-commerce solutions with the best protection.

Direct deposit/direct credit

Usually for business-to-business transactions, but smaller companies will probably accept payment from individuals by this method too. Money is directly deposited into another bank account using electronic funds transfer (EFT).

One of the most widely-used EFT programs is Direct deposit, in which payroll is deposited straight into an employee's bank account. For employees, Direct deposit is more commonly associated with mortgage or rent payments.

Historically, one of the main barriers to international trading in the Euro zone was the myriad of member-state banking standards and rules. The SEPA (Single Euro Payments Area) initiative came into force on 1st February 2104 with the aim to create a single standardised payment system across the 33 member states.

In effect, SEPA removed the legal and technical and commercial barriers to a single domestic payments market. When making payment, your payment should be received within a guaranteed time, and banks will not be allowed to make any deductions of the amount transferred. You will also receive simple and clear information on any charges or fees applicable.

PayPal

PayPal is the best-known example of a payment processing service that lets you accept online payments without the need for a merchant account of your own. All payments happen through the PayPal interface so there is also no need for someone to integrate payment gateways into your website.

On the downside, companies like PayPal will charge set-up and/or transaction fees. PayPal can stop payments, freeze your account or take money back from you if they feel that a customer might have a valid complaint against you. Check out the terms and conditions of the many payment processing services available, including Worldpay and Stripe.

Digital currencies

Electronically created and stored virtual money that can be used to buy physical goods and services. The best-known digital currency is the Bitcoin.

The fact that digital currency is not in widespread use means it may not be easily used or exchanged. Banks generally don't accept or offer services for them and the value of digital money is highly volatile.

Bitcoin uses peer-to-peer technology to operate with no central authority. Transactions are fast, irreversible and fees are typically less expensive than for credit/debit card payments. To accept Bitcoin online you'll need a third party payment processing company to help. At your bricks and mortar premises, you'll need a special terminal or customers can use mobile phone or tablet apps. Though most Bitcoin users are legitimate, this decentralised, anonymous system of transactions has also attracted a large black market presence.

Mobile

Many of your customers will soon expect to be able to pay for things using their mobile smartphone through a mix of contactless payment technology, text messages and data transfers. The market for these types of payment systems is still relatively small in Ireland, so they're not yet a must-have payment option.

However, Louise Phelan, vice-president of global operations for EMEA at PayPal warns: "We know that half of Irish smartphone users have made a purchase via their phone," she added. "We also know that Irish consumers spent €4bn online in 2012, yet only half of Irish businesses have websites. Furthermore, 2011 research showed that 75pc of purchases made that year were going overseas."

According to the Banking & Payments Federation Ireland, customers made 14.2 million online and mobile banking payments in Q2 2014. Mobile payments accounted for more than one-in-three of all online and mobile banking payments and measured against previous months it showed a decline in online banking payments. Consumers are switching to mobile banking.

There is a recognised trend for consumers in Ireland to use their mobile phone be it either for banking or mobile purchases. This landscape is changing rapidly and if recent internet history has taught us anything, this progress will be rapid and all consuming.

Contactless

So-called wave-and-go technology uses debit/credit cards or smart cards that are pre-charged with credit, like a travel card. The price limit on purchases made with wave-and-go is currently €15.

Technology has now been developed so that customers can use their smartphone for contactless payment too. Over in the UK, contactless mobile payments are available to customers of mobile network operator 'Everything Everywhere' or of 'Barclaycard' if customers are using the right

kind of phone. Many more financial institutions and phone companies are expected to offer it soon so it's only a matter of time before it launches in Ireland. Apple Pay and Google Wallet are both US services that allow credit/ debit card payment in this way. However, neither is available yet in Ireland.

Apple Pay features fingerprint security and promises there will be no charges for businesses that support the system.

To take advantage of these innovations, you'll need to invest in the appropriately enabled terminal at your shop or premises. Check with your bank to find out their fees for processing contactless payments. Contactless payments on mobile phones carry the same protection as a normal debit and credit card transaction.

Remember, no single type of payment is the best solution for every kind of business.



Online Accounting Software

WHO WE ARE

Big Red Cloud is a leading supplier of online account's software to the SME market.

Our online account's software is simple and easy to use and takes only minutes to set up. It is designed to enable smart business people get on with doing what they do best which is to sell their products or services.

We believe in giving exceptional value by including multiple users, unlimited transactions, telephone, email, live chat support and free access for your accountant and bookkeeper, all for a low monthly fee.

Join over 35,000 businesses that have already made the smart move and get your business up and running with Big Red Cloud's online accounts software.

European HQ

Rathdown Hall
Upper Glenageary Road
Glenageary
County Dublin
Ireland

Tel: +353 (0) 1 204 8300

UK Office

Basepoint Business Centre
Metcalf Way
Gatwick
West Sussex, RH11 7XX
United Kingdom

Tel: + 44 (0) 161 926 8822

info@bigredcloud.com

www.BigRedCloud.com

