

A Small Business Guide to Payment Processing



How to Make Sense of Payment Processing Solutions — and Find the Right One for Your Business

Payment processing has come a long way over the past two decades, when cash was king and accepting credit card payments was not yet the norm for small businesses.

Not only has accepting card payments become a baseline expectation for even the smallest of small businesses, but customers also crave a seamless, convenient and tailored experience during every interaction with a business — including when it comes to payment.

These demands have fueled innovation, and small businesses have access to a broader range of innovative payment solutions than ever before. But having more choice presents its own challenges. How can you be sure you understand your options when new solutions seem to hit the market every day? Which features matter most to your business? How can you tell if a solution will truly meet your needs?

We're here to help you answer those questions.

In the pages that follow, we'll share insights and expertise to help you better understand the dynamic landscape of payment solutions. You'll learn about the pivotal role a payment processing solution can play in your business's long-term success, the ins and outs of innovative, end-to-end solutions, and — most important — how to evaluate solutions and providers so you can confidently find the best fit for you.

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WHY YOUR PAYMENT PROCESSING SOLUTION MATTERS

How the Right Solution Can Help You Connect with Customers, Streamline Operations and Grow Your Business

The way we do business has changed dramatically in the past few years — and the way customers pay has changed too.

According to the San Francisco Federal Reserve Bank, 2022 data shows consumers are increasingly using less cash and are instead relying on other forms of commerce.¹

In 2021, cash transactions made up just 20% of all payments, down from 31% in 2017.¹

While this trend is, in part, explained by the shift to online shopping during the pandemic, it also reflects a growing aversion to cash among consumers. Just 19% of customers say they prefer cash as a form of payment, and consumers age 25 and under say they use cash just 17% of the time.¹

At the same time, credit card use has gone up. While credit cards accounted for just 18% of transactions in 2016, that number had increased to 28% by 2021.¹ Contactless payments — authenticated payments made using RFID technology, or “chip cards” — have also gone mainstream,

Nearly half (48%) of consumers say they won't shop at a store that doesn't offer contactless payment.²

Plus, the U.S. contactless payment market is expected to grow at a compound annual growth rate (CAGR) of 18.8% between 2022 and 2030.³

Digital wallets — digital payment solutions, such as Apple Pay, Google Pay and PayPal — are also on the rise. Nearly 9 in 10 customers (89%) said they used at least one digital wallet in 2022, and 62% report using two or more.⁴

The message is clear: Consumers' payment preferences have changed, and small businesses must adapt to retain their customers.

The Right Payment Processing Solution Can Help You Meet Customers' Needs

Investing in payment processing is key to meeting customers' needs as is creating a convenient and elevated customer experience at checkout. A modern, streamlined solution helps you deliver:

- **An intuitive interface** that customers can use and navigate easily
- **Flexible payment options** that allow customers to pay using the method they prefer
- **Frictionless checkout** that automates or eliminates nonessential steps, or even allows customers to check out using their own device
- **Safety and security** by deploying new technologies, such as contactless payments that include added layers of security

The ability to accept a range of payment options, in particular, is key to deepening customer relationships. “Consumers today base their shopping decisions around the payment experience,” says Josh Kopp, Merchant Services territory manager at PNC.

“When consumers prefer contactless or digital payments, having to take out their wallet at checkout can drive them toward one retailer over another.”

More than 9 in 10 (91%) consumers say a satisfying checkout experience influences their decision to shop with a merchant again.⁵

Your payment processing solution can also help you increase the lifetime value of your customers with loyalty programs. “Offering a loyalty program can become a key differentiator for your business, especially if you're in a highly competitive area,” says Kopp. It's also shown to increase sales, with top-performing loyalty programs boosting revenue from repeat customers by up to 25% annually.⁶

Streamline Your Operations with End-to-End Business Management

While the customer-facing benefits of modern payment processing should be top of mind for small businesses, they're only the tip of the iceberg. Many of the same features that benefit consumers — such as an intuitive interface and frictionless checkout — also allow your staff to complete transactions more efficiently, helping to boost productivity across your business.

And, thanks to the power of software integrations, which allow your payment processing software to communicate with the rest of your tech stack, your payment solution can help you manage multiple aspects of your business.

“The key differentiator for payment processing solutions today is the ability to access end-to-end business management,” explains Kopp. “The right software can solve a myriad of problems in your business, from inventory management to forecasting, that extend far beyond traditional payment processing.”

These end-to-end solutions can analyze your sales trends in-store and online, for example, to identify bestsellers and help you forecast demand and revenue. They can also help you flag slower-selling stock for targeted promotions and then ensure those promotions apply seamlessly during the checkout process. What’s more, your payment processing solution can help you more effectively manage your employees by tracking each team member’s sales so you can identify over- and underperforming talent and set performance goals accordingly.

Finally, the payment analytics embedded in payment processing solutions offer valuable insights that can shape your business strategy. You’ll be able to track customer journeys to learn why your most loyal shoppers stick with you — and why other customers drop off — to better understand your position in the market and set your business up for long-term success.

WHAT DOES A MODERN PAYMENT PROCESSING SOLUTION LOOK LIKE?

The Anatomy of an End-to-End Solution, from Hardware to Software to Pricing

The glut of payment processing solutions on the market can make it difficult to distinguish how each one works and what makes one solution different from another. Making sense of your options starts with understanding the three main components of a payment processing solution — hardware, software and pricing — and the variations that occur within each one.

Here, we’ll walk through the common components of modern payment processing solutions as well as the options you may find available as you shop for solutions.

Payment Processing Hardware

If you’re accepting payments in person, you’ll need equipment that allows you to collect payment at point of sale. In the past, this meant a significant investment in a point-of-sale (POS) solution and an on-site server to store and transmit transactions and sales data. However, cloud-based systems streamline the process, freeing up space while providing more flexibility in how you collect payment.

There are several types of POS available, depending on your industry and your payment processing provider. Some of the most commonly available options follow.

Terminal systems



These all-in-one stations allow you to accept payments, capture information, schedule appointments, process rewards, get insights and more. They are available in a range of sizes, from full-size terminals to miniature options, and are ideal for any business that needs a stationary terminal.

Hybrid systems



Handheld hybrid devices can be used at a counter or taken to a customer. These solutions are compact to work well in small stations and can be an ideal solution for restaurants, retail, appointments and project businesses.

Mobile systems



Mobile solutions are card readers that pair with your smartphone or tablet to transform it into a POS system. These ultraportable models allow you to take your POS with you, making them ideal for pop-up locations, markets and direct service providers, such as plumbers and electricians.

Ultimately, the POS solution that’s right for your business depends on a number of factors. Consider your budget, your business goals — including what your business may look like in the coming years — and how (and where) your customers pay to find the most appropriate option.

Payment Processing Software

Software rounds out your payment processing solution, enabling the functionality of the hardware and transforming your POS into the “mission control” for your business.

On the most basic level, software allows you and your staff to complete transactions and process payments. But it’s also become an increasingly important part of the business’s operations, thanks to software integrations that expand the system’s functionality far beyond payment processing.

“Payment processing today has evolved into software as a service (SaaS), and the real benefit has become end-to-end operations management, revenue generation and expense mitigation,” says Kopp. “Software is what allows you to unlock the operational benefits that streamline your operations and deepen relationships with customers.”

When it comes to finding an end-to-end solution that addresses your business’s pain points, there are two general approaches to choose from: the **app store-based approach**, which involves rolling out an all-in-one solution and mixing and matching the features

and integrations you need, and the **custom-built approach**, which involves building a tailored solution from the ground up.

Both approaches have their advantages and considerations. The app store-based approach usually offers a simple UI and “out of a box” functionality that allows for rapid onboarding for a relatively low upfront investment. However, it may be difficult for business owners to know the full cost of payment processing upfront and may see their costs change as app developers change their fees.

The custom-built approach trades greater flexibility and tailored functionality for a higher upfront investment and longer time to implementation. However, for businesses seeking a personalized solution, it can be well worth the investment.

Pricing: A Critical Piece of the Puzzle

Investing in a payment processing solution pays off in your ability to attract new customers and run your business more strategically — but pricing is still an important part of the equation.

There’s no one-size-fits-all approach to pricing, and how much you’ll pay for your POS system and payment processing depends on several factors, including your sales volume, the types of payments your customers use, your system and even your industry. But with options available for businesses — and budgets — of all sizes, you’ll be able to find a solution that meets your needs.

As you evaluate your options, keep an eye to the following fees.

Payment processing fees

These fees are associated with processing payments, charged as a percentage of the purchase total, a flat rate or some combination of the two. The total payment processing fee can vary significantly from card to card, from industry to industry and from business to business.

Fees generally include:

- **Interchange fees**, also called “swipe fees,” charged by the institution that issued the card to the cardholder that were used for a payment transaction
- **Payment processor fees**, charged by the merchant services processor that facilitates the payment
- **Assessment fees**, charged by the card network (e.g. Visa, Mastercard, American Express) to allow the merchant to accept cards from that network

Equipment fees

These fees are associated with purchasing POS equipment, such as a station, or a portable or mobile POS solution. These vary based on the provider and the specific equipment you choose.

Software subscription fees

Many payment processing providers charge a recurring subscription fee for access to their software. These fees vary by provider, as well as by the type of service you subscribe to. Generally, businesses trade off some functionality for lower subscription fees while end-to-end solutions that add more value to the business require greater investment.

How to Minimize Your Costs

Payment processing is a necessary cost of doing business, but you can take steps to reduce your fees. Follow these best practices to decrease or offset your costs.

Confirm customer information to lower risk

Capturing customer data can help reduce the risk of fraudulent transactions, which can lower your payment processing fees. Choose a payment solution with security measures to verify customer data, including the card’s CVV number, and consider using an address verification service (AVS) to confirm that the billing address provided at checkout matches the one on file for the card.

Develop a clear return and refund policy

Chargeback fees, which occur when customers dispute a charge for faulty goods or services, add to your overall payment processing costs. Avoid them by creating a clear return and refund policy that manages expectations with customers. Post the policy on your website, include a link or QR code directing to the policy on each receipt, and train staff on how to communicate and enforce your policy.

Ask customers to pay in person, when possible

If your business offers click-and-collect or curbside pickup, encourage customers to swipe their card to pay on-site when they pick up their goods. Transactions made without a physical card present — for example, keying in the credit card information for a purchase made over the phone — tend to have higher fees.

COMMON TYPES OF SOFTWARE INTEGRATIONS

Revenue Generation

- Loyalty programs
- Promotions and discounts
- Marketing communications (email, text)

Talent Management

- Payroll
- Scheduling
- Employee productivity reports

Insights and Forecasting

- Inventory management
- Cash flow analysis
- Demand forecasting
- Business management

FINDING THE RIGHT PAYMENT PROCESSING SOLUTION FOR YOUR BUSINESS

7 Best Practices for Evaluating Solutions and Providers

1. Start by Assessing Your Needs

The first step in finding the right solution is taking a deep dive into your business — and your target market — to identify your biggest needs. Start by considering your customers and how they prefer to pay. If your clientele is particularly cash-averse and values innovation, for example, selecting a payment processing solution that lets you accept a range of payments may be even more important than usual.

Now's also a good time to reflect on your biggest pain points. "Think about what's holding your business back and which gaps in your business you could fill with a payment processing solution with software integrations," advises Kopp. "This will help you prioritize the features that will have the biggest impact on your business so you don't pay for more or less than what you need."

2. Consider Ease of Use

When you're a business owner, time is your most valuable resource — and the ideal solution should be quick and convenient to onboard and use.

"The ideal solution should have a broad range of integrations so it can work well with the technology you already use," says Kopp. "This reduces your upfront costs since it will fit into your existing tech stack, and helps your team get up to speed quickly by integrating with technologies they're already familiar with."

Look for software with a simple, intuitive user interface as well. Not only will this enhance the customer experience by reducing friction at checkout, but it also helps your team quickly adapt to the new POS.

3. Balance Pricing with Functionality

While it might be tempting to opt for the lowest-cost payment processing solution, you may be missing out on functionality that could enhance your business. The least expensive options may limit your ability to accept a range of payments, for example, or offer little or no integration to help you manage your business, which may undercut why you want to invest in a payment processing solution in the first place.

As you weigh your options, consider the value each solution can bring to your business to decide which features are worth the investment. No matter which option you go with, keep fee transparency top of mind. Transparent fees allow you to more accurately forecast your payment processing costs, so you can make an informed decision around which pricing model is truly most cost-effective for your needs.

4. Be Mindful of Data Safety and Security

Data safety is top of mind for consumers, especially if you accept payments online. And it should be a top priority for you. More than 6 in 10 businesses (65%) were targeted for payment fraud attacks in 2022, reports the Association for Financial Professionals.⁷ So it's not a matter of *if* you'll be targeted — it's a matter of *when*.

Finding the right payment processing solution can help you protect yourself. Ask potential providers how they can help you stay Payment Card Industry Data Security Standard-(PCI DSS)-compliant and whether they offer additional security measures to safeguard data.

5. Find a Solution That Can Grow with You

The landscape of payment processing is constantly evolving — and as your business grows, your needs may change too. That means the ideal payment processing solution needs to be able to evolve too, both to remain on the pulse of payment trends and to meet your business's evolving needs as you grow.

As you weigh your options, look for flexible solutions that allow you to deploy new integrations and expand functionality as your needs change. In addition, seek out providers who value innovation and continually evolve

their offerings so you can meet customer expectations today, tomorrow and years down the road.

6. Select a Provider with Industry Expertise

When it comes to choosing a payment processor, your industry matters. The most appropriate software integrations may differ from industry to industry, Kopp explains. "The more experienced your provider, the more likely they'll be to understand your pain points, anticipate your needs and help you overcome any challenges or hurdles that arise."

Industry-specific experience can be especially important if you're in an industry with regulatory or financial risk involved in accepting payments, such as alcohol or gambling. In these cases, it may be important to look for a payment processor that has experience navigating potential regulatory hurdles.

Find an experienced provider by asking about their track record serving businesses similar to yours. Strong candidates should be able to demonstrate their success with testimonials and customer success stories.

7. Consider Your Customer Experience

As a business owner, you know the importance of delivering a seamless and personalized customer experience — and your payment processing provider should share this core value.



THE RIGHT PAYMENT PROCESSING SOLUTION HELPS YOU ATTRACT AND RETAIN CUSTOMERS.



As you evaluate providers, take note of your experience during the sales process, as well as the support that will be available to you if you become a customer.

Is their team friendly, responsive and ready to help? Do they have a dedicated team of POS experts on hand to offer 24/7/365 support?

Look for providers who have the dedicated experts you'll need to resolve issues quickly and efficiently so you can focus on running your business.

FIND END-TO-END PAYMENT PROCESSING SOLUTIONS YOU CAN TRUST

PNC Merchant Services is guided by extensive industry experience and backed by knowledgeable support, 24/7.

We offer a suite of services to help you stay on the pulse of payment trends, protect payment data and propel your business forward.

Visit us online to learn more about our small business payment processing solutions and how we can help you reach your business goals.

¹ <https://www.frbsf.org/wp-content/uploads/sites/7/2022-Findings-from-the-Diary-of-Consumer-Payment-Choice-FINAL.pdf>

² <https://usa.visa.com/dam/VCOM/global/run-your-business/documents/visa-back-to-business-study.pdf>

³ <https://www.grandviewresearch.com/industry-analysis/contactless-payments-market>

⁴ <https://www.mckinsey.com/industries/financial-services/our-insights/banking-matters/consumer-trends-in-digital-payments>

⁵ <https://www.pymnts.com/wp-content/uploads/2022/09/PYMNTS-Building-A-Better-Online-Checkout-Experience-September-2022.pdf#page=3>

⁶ <https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/next-in-loyalty-eight-levers-to-turn-customers-into-fans>

⁷ <https://www.afonline.org/publications-data-tools/reports/survey-research-economic-data/Details/payments-fraud>

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