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SUBSCRIPTION

Cheat Sheet: Payment in Action

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C H E A T S H E E T

A Subscription Payment In Action

Understand the 7 Steps a Payment Takes from Initial Order to Getting That Money In Your Bank Account.

Payments are THE biggest area of confusion to ANY business, let alone a recurring business. This guide will help you understand the mechanics of payment, key terms, and key players involved from the moment your customer submits a payment to your business to when the money for that customer's subscription gets into your bank account. Understanding how payments work is a key foundation to selecting the right vendors for your business and knowing what questions to ask when talking with them.

DEFINITIONS



Payment Cart:

How your business takes initial payment from your subscriber.



Global Interchange Payment Network (Issuers):

Network for payment players to “talk” to one another in order to manage payment transactions globally.



Payment Gateway: Connects your Payment Cart with the other pieces of the payment processing chain.



Subscriber's Payment Card Issuing Bank):

The bank behind your subscriber's payment card.



Payment Processor:

The system(s) required to conduct a payment transaction from start to finish.



Merchant Account (Acquiring Bank):

A specific type of bank account for your business specifically for depositing and managing payments and transitions from your customers.

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STEP ONE: The Order



Your customer submits his/her credit card for a Payment for your subscription or membership service. This payment can be done online, over the phone, or even via an app and hosted either on your site or a payment page (that looks like your site), that is hosted by your subscription management or payment vendor.

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STEP TWO: Authorization Starts



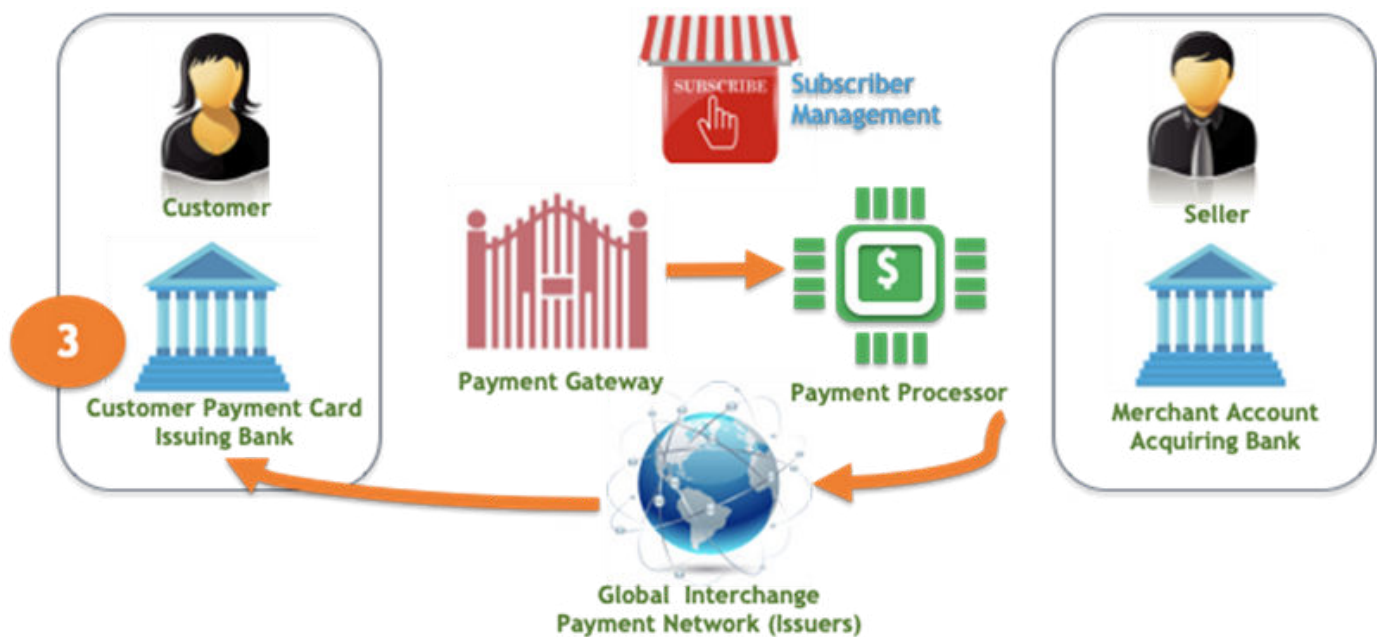
The charge “Authorization” process begins. Your Payment Gateway provider manages the complex routing of the data on behalf of you, the merchant. A Payment Gateway is an application that connects your site's shopping cart or online order form with the other pieces of the credit-card processing chain. Some Payment Gateways are al-a-cart vendors and while others include the Payment Gateway as part of a larger offering.

Make sure you understand how your Payment Gateway supports failed payments both initially and upon a renewal payment. Payment Gateway vendors also can provide additional services such as fraud detection, address verification, and Account Updater types of services. Using an Account Updater service is a best-practice for recurring (subscription) billing. This service is provided by credit card Issuers like Visa and MasterCard to provide merchants with updated payment card information (and not all Payment Gateway vendors provide access to it).

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STEP THREE: Payment Processing



Your Payment Gateway provider passes the secure transaction information via a secure connection to the Payment Processor either in real-time for your initial subscription transaction or in “batch” mode, typically daily, to process your subscription renewal (Recurring) transactions.

Payment Processors, also known as Merchant Acquirers, are the only transaction-handling entity required between the merchant and the card companies (Visa, MasterCard, etc.) known as the “Issuers”. The Issuers use a Global Interchange Payment Network that connects all payment card Issuers globally with Payment Processors to support payments globally, in real-time.

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STEP FOUR: Payment Approved or Declined



Your customer's Payment Card Bank, the "Issuing Bank", approves or declines the transaction based on the customer's available funds and passes the transaction results back to the Global Interchange Payment Network. The Global Interchange Payment Network then relays the transaction results to your Payment Processor. Your Payment Processor then relays the transaction results to your Payment Gateway. Remember, for the initial transaction, all of this is happening in real-time. For renewal or recurring charges, this would typically happen in a "batch" with multiple transactions together on a daily basis.

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STEP FIVE: Payment Approval Communicated

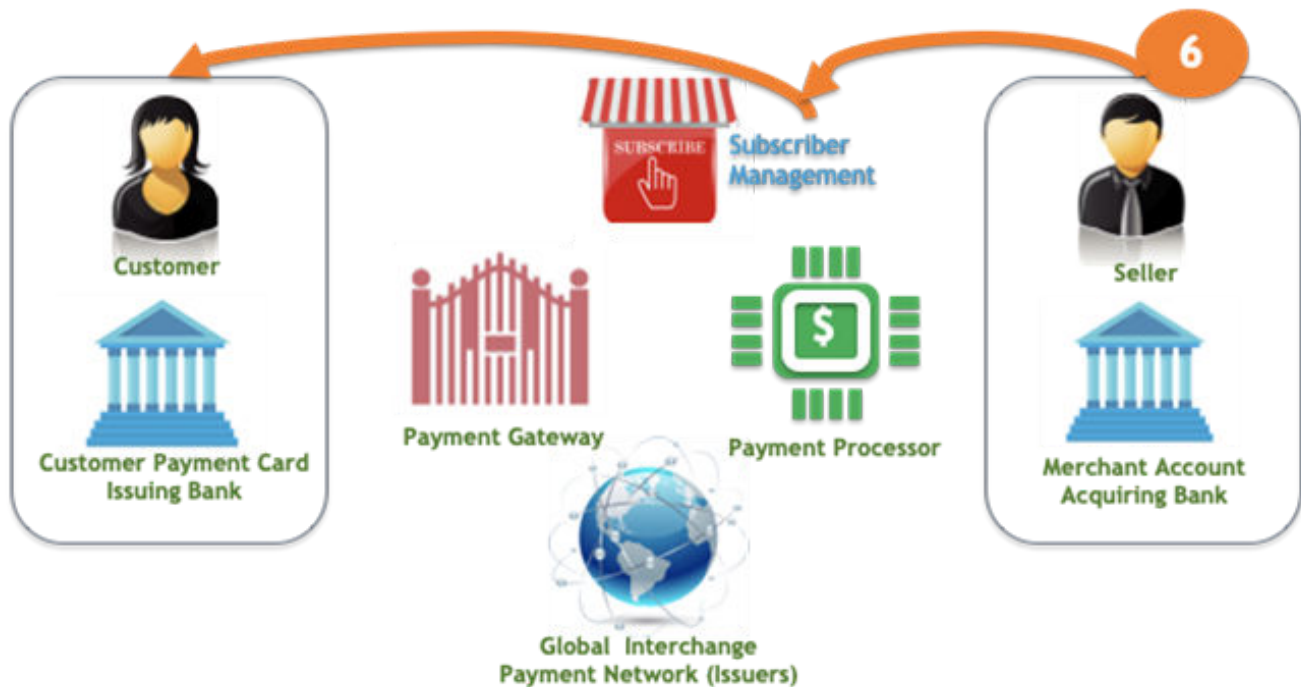


Your Payment Gateway now stores the transaction results and sends them to your subscription management vendor and “front-end” or website for your customer to see if the charge for your subscription or membership product was approved or declined. Your Payment Gateway also provides reports and alerts for merchants on successful new transactions and batched transactions.

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STEP SIX: Fullfillment



Assuming the payment was successful now it's time for you, the merchant, to provide your subscription or membership a product to your customer.

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STEP SEVEN: Receive Your Money



You've made the sale. Your customer considers the sale complete. For you, however, the transaction is still in process, since it must now be “Settled” and “Funded”. Your customer’s issuing credit card bank sends the appropriate funds for the transaction to the Global Interchange Payment Network, the network for issuing credit cards such as Visa, MasterCard, or Discover. The Network passes the funds to the bank where your merchant account is. Your bank then deposits the funds into your merchant bank account. This is called ‘Settlement’ and typically the transaction funds are deposited into your primary merchant bank account within two to four business days. When that happens, that is call “Funding”. Note that with some Payment Gateways and Payment Processors, the funds are not passed directly to your merchant account bank. They are instead passed from the Global Payment Network, to your Gateway/Processor and then to your merchant account bank. How your payments flow will determine your fees, when fees are taken out, and the timing of Settlement and Funding.