



## Managing Customer Payments

**H**ow do you like to get paid? That's an important question when it comes to your eBay business, and you have a variety of options.

When you're selling on eBay, you can choose to accept any of a number of different types of payment from your customers. This may seem like an easy decision, but each type of payment needs to be handled differently on your end. You need to choose those payment options that work best for your eBay business.

## Evaluating Different Payment Options

As any businessperson will tell you, not all dollars are the same. A dollar paid by one method might actually cost you more (or be more risky) than a dollar by another method. And you definitely want to minimize your costs, especially when they're taken directly from what you're paid.

Fortunately, eBay doesn't force you to use any one payment method. For example, you can limit your payments to credit cards only; there's no law that says you have to accept cash or checks. So you can pick and choose which payment methods you'll accept—just as long as you specify this up front in your item listings.

Of course, the more payment options you offer, the more potential buyers you'll attract. Still, some methods are better than others for different types of sellers. What are the pros and cons of the various types of payment? Take a look at Table 16.1.

**Table 16.1 Pros and Cons of Common Methods of Payment**

Payment Method	Pros	Cons
Cash	Fast payment, no hassles	Unattractive to buyers; hard to track
C.O.D.	Cash payment	High noncompletion rate; lots of paperwork; not sanctioned by eBay
Personal check	Convenient for buyers	Slow; have to wait to clear
Money order/cashier's check	Faster than personal checks, almost like cash	Hassle for buyers
Credit cards/PayPal	Fast payment, buyers like it	Fees involved

For what it's worth, most buyers today accept money orders, cashier's checks, and credit cards (via PayPal). Some buyers also accept personal checks, just as some buyers don't accept credit cards (they don't like the fees). I find that 80% or more of all my sales are paid for via credit card (using PayPal), making this method far and away the most popular among buyers. If you don't accept credit cards, you run the risk of significantly limiting your business.

Let's look at each of these payment methods separately.

## Cash

As a seller, you certainly won't object to opening up an envelope and finding a few crisp new bills inside. Unfortunately, sending cash through the mail is not one of the

**note** What do you do when a nearby buyer wants to come by and pick up the item personally, rather than shipping via normal means? There's nothing wrong with this, as long as you get a verifiable payment. That means asking the buyer to bring cash, money order, or cashier's check—or to pay via PayPal before he or she arrives. Definitely do *not* let someone pick up an item and pay via personal check!

smartest things a buyer can do; cash is too easily ripped off and virtually untraceable. You can ask for cash payment (not that you should, of course), but unless the selling price is extremely low (under \$5), don't expect buyers to comply.

One other thing: Cash is hard to keep track of—even for extremely organized sellers. There's no paper trail, and it's tempting to take any cash you receive and just stuff it in your wallet. If you do receive a cash payment, try your best to treat it like a money order or cashier's check, at least in terms of how you track it.

The bottom line: If it's bad for your customers, it's bad for you too. You should probably discourage payment by cash.

## **C.O.D.**

Cash on delivery (C.O.D.) sounds good on paper. You ship the item, with the stipulation that the deliveryman (or woman) collect payment when the item is delivered.

There are problems with this method, however. What happens if the buyer isn't home when the delivery is made? What if the buyer is at home but doesn't have the cash? What if the buyer refuses to pay—and rejects the shipment? I've heard stories of up to 25% of all C.O.D. orders being refused, for one reason or another.

Even worse, C.O.D. service often comes with a high fee from the carrier—and it's a fee that you, the seller, have to pay. The additional fee alone rules out C.O.D. for many sellers.

Then there's the fact that you don't get your money until after the item is delivered. The delay in your getting your cash reduces the appeal considerably.

All things considered, it's easy to see why few eBay sellers offer C.O.D. payment—and why eBay has quit offering it as a default payment option. The problems with this payment method tend to outweigh the benefits, and I can't recommend it.

## **Personal Checks**

One of the most common forms of payment is the personal check. Many buyers like paying by check because it's convenient, and because checks can be tracked (or even cancelled) if problems arise with the seller.

As a seller, you should like personal checks a little less because they're not instant money. When you deposit a check in your bank, you're not depositing cash. That \$100 check doesn't turn into \$100 cash until it tracks back through the financial system, from your bank back to the buyer's bank, and the funds are both verified and transferred. That can take some time, typically 10 business days or so.

Because some buyers prefer paying by check, you should probably be prepared to handle this payment method. When you receive a check, deposit it as soon as possible—but do *not* ship the merchandise. Wait until the check clears the bank (two weeks if you want to be safe—longer for checks on non-U.S. banks) before you ship the item. If, after that period of time, the check hasn't bounced, it's okay to proceed with shipment.

If you are on the bad end of a bounced check, all hope is not lost. The first thing to do is get in touch with your bank and ask it to resubmit the check in question. Maybe the buyer was just temporarily out of funds. Maybe the bank made a mistake. Whatever. In at least half the cases, bounced checks unbounce when they're resubmitted.

Whether you resubmit the check or not, you should definitely email the buyer and let him or her know what happened. At the very least, you'll want the buyer to reimburse you for any bad check fees your bank charged you. The buyer might also be able to provide another form of payment to get things moving again. (Credit cards are nice—as are money orders.)

## Money Orders and Cashier's Checks

Money orders and cashier's checks are, to sellers, almost as good as cash. You can cash a money order immediately, without waiting for funds to clear, and have cash in your hand. When you receive a money order or cashier's check, deposit it and then ship the auction item. There's no need to hold the item.

The only bad thing about money orders and cashier's checks is that you have to

**note** If you accept personal checks, it's a good business practice to state in your eBay listing how long you'll wait before shipping an item paid for by personal check. Better to warn the buyer up front than receive a complaining email afterward.

**note** If a check bounces, the depositor (you) will likely be assessed a fee from your bank. (Of course, the writer of the bad check will also have a fee to pay—but that's not your problem.) If the buyer who wrote the check offers to make good on the payment, make sure he or she reimburses you for your bad check fee, over and above the final auction price—preferably via a different form of payment.

wait for them to arrive. Even if the buyer puts payment in the mail the very next day, you'll still wait anywhere from three to five days after the auction to receive payment. Still, there's not a lot to dislike about this method of payment—it's hard to get burned with either a money order or cashier's check.

There's also the (extremely slight) possibility that you can receive a bad cashier's check. To be precise, a cashier's check or money order isn't *exactly* the same as cash; your bank still needs to be reimbursed by the issuing institution, and if this doesn't happen, the cashier's check/money order will bounce—although this is highly unlikely. Be particularly careful of money orders or cashier's checks drawn on foreign banks or issued by unfamiliar institutions. When in doubt, hold the merchandise and ask your bank to verify that the payment is good.

**note** Beware a common scam where a buyer sends you a money order or cashier's check for an amount larger than the purchase price and then asks you to send funds for the difference. Don't fall for this. Accept payment for the amount of the purchase only!

## Credit Cards

Until just a few years ago, if you wanted to accept credit card payment for your auction items, you had to be a big-time retailer, complete with merchant account and bank-supplied charge card terminal. This limited the number of sellers who could accept credit card payment, which probably cut down on potential bidders because many buyers like the convenience and relative safety of paying by credit card.

Today, however, there are options available that enable you to accept credit card payments for your auction items. First, several financial institutions provide merchant credit card accounts for smaller retailers, as we'll discuss later in this chapter. Second, you have PayPal—an online payment service that lets any auction seller easily accept credit card payments, with little or no setup hassle. PayPal works by accepting credit card payments from your customers and then sending you a check or depositing funds directly in your bank account for that amount—minus PayPal's fee, of course.

Any time you accept a credit card, with either a merchant account or PayPal, you are charged a fee—typically several percentage points of however much the buyer pays. When you consider that you have to pay eBay's listing fee and final value fee, paying another few points for the convenience of accepting credit cards can really sock it to a small seller—or anyone selling a low-priced item. You should definitely research the payment service's fees before you sign up.

We'll look at credit cards in more detail in the "Accepting Credit Card Payments via PayPal" section, later in this chapter.

## Escrow Services

A final payment option, used primarily in higher-priced auctions, is the use of an escrow service. An *escrow service* is a company that acts as a neutral third party between you and the buyer, holding the buyer's money until the buyer receives the purchased merchandise. You get paid only when the buyer is satisfied, which is good protection for the buyer—but delays you receiving your money.

Here's how a typical escrow transaction works. Either during or just after the end of an auction, you and the buyer contact each other and agree to use an escrow service. The buyer sends payment (by check, money order, cashier's check, or credit card) to the escrow service; then—after the payment is approved—the escrow service notifies you and instructs you to ship the item. After the buyer receives the item, verifies its acceptability, and notifies the escrow service that all is hunky-dory, the escrow service pays you.

The escrow service's fees can be split between the two parties, but are more typically paid by the buyer. Fees differ widely from service to service.

For what it's worth, eBay recommends that customers use an escrow service when the transaction is over \$500 and the seller doesn't accept credit card or PayPal payments. So, if you accept credit card payments (via PayPal or otherwise), you shouldn't have to bother with escrow.

If you do find yourself in a situation that calls for an escrow service, eBay recommends Escrow.com ([www.escrow.com](http://www.escrow.com)). If you choose to use another escrow company, make sure that it's bonded and legitimate; there are some phony escrow companies operating on the Internet that you need to watch out for.

## Accepting Credit Card Payments via PayPal

As you might expect, there's no big preparation necessary to accept payment by cash, check, or money order. Accepting credit cards is another issue. Fortunately, you have a couple of options available to you—the most popular being the PayPal service, which can handle all your credit card transactions.

**note** PayPal also lets buyers pay via electronic check and funds withdrawn from their checking or savings accounts—although most buyers use it to pay via credit card.

## Setting Up a PayPal Account

PayPal (www.paypal.com), shown in Figure 16.1, serves as the middleman for your credit card transactions. The buyer pays PayPal via credit card, PayPal handles all the credit card paperwork, and then PayPal sends a check to you (or deposits funds in your checking account). PayPal service accepts payments by American Express, Discover, MasterCard, and Visa—and, although it’s primarily a U.S.-based service, it also accepts payments to or from more than 55 countries.

**FIGURE 16.1**

Use PayPal to accept credit card payments from your customers.



Before you can use PayPal as a seller, you must sign up for PayPal membership. You do this by going to the PayPal website, clicking the Sign Up link, and then following the onscreen instructions to complete your registration.

You can choose from three different types of PayPal accounts:

- **A Personal** account is for eBay buyers only, not for sellers. You can send payments via credit card and electronic withdrawal and receive payments via “electronic cash,” but you can’t receive payments made via credit card.

- A **Premier** account is a type of personal account that works better for small business owners and individual sellers. With a Premier account, you can accept both credit card and non-credit card payments (for a fee). You sign up for Premier status by checking the appropriate option on the Personal Account Sign Up page.
- A **Business** account is necessary if you're receiving a high volume of payments. With this type of account, you can do business under a corporate or group name and use multiple logins.

Most eBay sellers sign up for a Premier account. If your sales volume rises high enough, PayPal will automatically switch you to a Business membership.

## Paying for PayPal

There is no charge for becoming a PayPal member—although there are fees for actually using the service. Even though PayPal is owned by eBay, the fees you pay to PayPal are separate from the fees you pay to eBay. Note that PayPal doesn't charge the buyer any fees; instead, it charges you, the seller, a fee based on the *amount of money transferred*.

This last point is important. PayPal charges fees based on the total amount of money paid, *not* on the selling price of the item. That means if a \$10 item has a \$5 shipping/handling cost, the buyer pays PayPal a total of \$15—and PayPal bases its fee on that \$15 payment. So you need to factor your PayPal fees on the total of item price plus shipping costs.

PayPal's fees range from 1.9% to 2.9%, depending on your monthly sales volume. Table 16.1 presents PayPal's fee schedule as of August 2006.

**Table 16.1 PayPal Transaction Fees (U.S.)**

Monthly Sales	Transaction Fee
\$0-\$3,000.00	2.9%
\$3,000.01-\$10,000.00	2.5%
\$10,000.01-\$100,000.00	2.2%
>\$100,000.00	1.9%

You're also charged a flat \$0.30 per transaction, regardless of your sales volume. All fees are deducted from your account with every transaction.



## Activating PayPal in Your Auction Listings

The easiest way to accept PayPal payments in your eBay auctions is to choose the PayPal option when you're creating an item listing. This is as simple as checking the PayPal box and entering your PayPal ID on the Sell Your Item page.

When you choose this option, a PayPal payments section is added to your item listing, as shown in Figure 16.2. PayPal will also appear as a payment option on your post-auction item listing page and in eBay's end-of-auction email to the winning bidder. Most third-party checkout tools will also recognize and accept PayPal payments.

**FIGURE 16.2**

This seller accepts PayPal payments.



## Collecting PayPal Payments

A buyer can make a PayPal payment in a number of ways. He or she can respond to the PayPal link embedded in the end-of-auction email received from eBay, click the PayPal button in the closed item listing, select the PayPal option when accessing the eBay checkout page, or pay directly from the PayPal website.

When a buyer makes a PayPal payment, those funds are immediately transferred to your PayPal account, and you receive an email notification of the payment. This email will include all the information you need to link it to a specific auction and ship the item to the buyer.

In most cases, the buyer's payments come into your account free and clear, ready to be withdrawn from your checking account. The primary exception to this are payments made via eCheck, where a buyer pays PayPal from his or her personal checking account. Because PayPal has to wait until the "electronic check" clears to receive its funds, you can't be paid until then, either. PayPal will send you an email when an electronic payment clears.

## Withdrawing PayPal Funds

You have to manually withdraw the funds due to you from PayPal; no automatic payment option is available. You can let your funds build up in your PayPal account, or you can choose (at any time) to withdraw all or part of your funds.

You have the option of okaying an electronic withdrawal directly to your checking account (no charge; takes three to four business days) or requesting a check for the requested amount (\$1.50 charge; takes one to two weeks). Just click the Withdraw tab (from the Overview tab) and click the appropriate text link.

**note** PayPal also offers a variety of auction management tools, including the ability to generate invoices and print mailing labels with prepaid postage. See the PayPal site for more information.

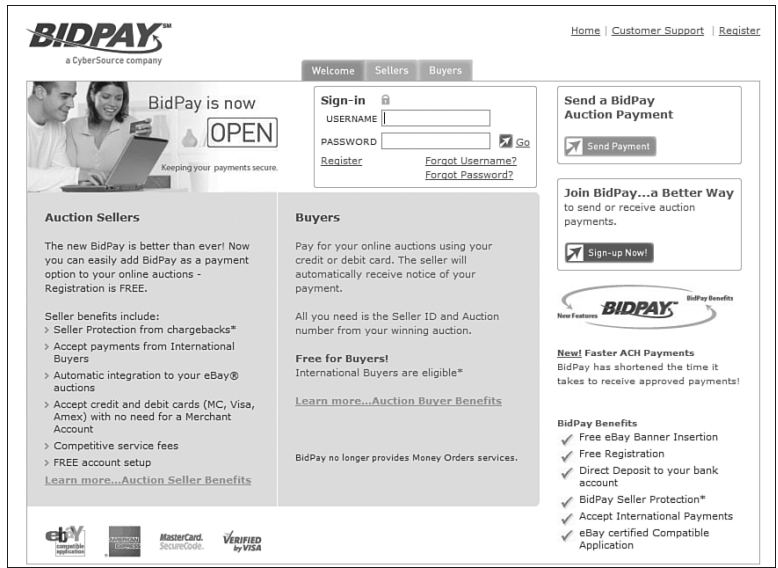
## Alternatives to PayPal

Not all sellers like PayPal. Some dislike the (perceived) high transaction fees; some dislike the way PayPal operates; some simply don't like being locked into yet another service owned by eBay. Fortunately, there are alternatives.

### BidPay

Many sellers now accept payments by BidPay ([www.bidpay.com](http://www.bidpay.com)). BidPay shown in Figure 16.3, is an alternative to PayPal that also lets buyers pay via credit card. In fact, BidPay operates a lot like PayPal, with a slightly lower 2.5% transaction rate—plus a slightly higher 50-cent per-transaction fee.

**FIGURE 16.3**  
An alternative to PayPal—BidPay, by Western Union.



## Google Checkout

Here's a PayPal alternative that isn't really an alternative. Google Checkout is an online payment service that lets retailers accept credit card payment for their sales, just like PayPal does. It's even lower priced than PayPal, with a transaction fee of 2.0% (versus PayPal's 2.9%) and a per-transaction fee of 20 cents (versus PayPal's 30 cents).

Given these substantially lower rates, you'd think that Google Checkout would be a great alternative for eBay sellers. Alas, eBay won't let you accept Google Checkout for your auction payment. (eBay owns PayPal, remember, and may not be inclined to endorse a competitor.) While this situation may change in the future, right now Google Checkout simply isn't an option for your eBay listings.

**note** BidPay was formerly known as Western Union Auction Payments. You shouldn't confuse this service with a Western Union wire transfer, a method of payment that is frequently (mis)used by scam sellers, particularly those selling outside the U.S.

## Merchant Credit Card Account

If you're a high-volume seller, you may be able to get a lower per-transaction rate than that offered by PayPal by signing up for a merchant credit card account from a traditional banking or financial institution.

However, there are a few issues around establishing this type of traditional merchant credit card account. First, it's more hassle than signing up for PayPal; you may have to submit various business documentation and possibly have your own credit checked. Second, getting everything up and running may also be more involved than simply plugging into the PayPal system. And finally, upfront or monthly fees may be involved.

That said, if you can save half a point or more on every credit card transaction, it may be worthwhile—if your credit card volume is high enough. Most merchant credit card services have rates in the 2% to 2.5% range, which beats PayPal's standard 2.9% rate—but is no better than PayPal's rates for high-volume sellers. Still,

**note** Setup fees for a merchant account can range from \$25 to \$400 or more, and there's probably some sort of minimum transaction amount that you must maintain each month. Some services also make you purchase expensive software or credit card terminals. Since these fees vary so much, make sure you shop around before you commit.

many eBay sellers prefer to handle their credit card processing directly, without having to rely on the PayPal service.

If you're interested in establishing a merchant credit card account, here are some services that specialize in providing credit card services to online merchants:

- Cardservice International ([www.expandyourbusiness.com](http://www.expandyourbusiness.com))
- Chase Paymentech Solutions ([www.paymentech.com](http://www.paymentech.com))
- Charge.com ([www.charge.com](http://www.charge.com))
- CreditCardProcessor.com ([www.creditcardprocessor.com](http://www.creditcardprocessor.com))
- Fast Merchant Account ([www.fast-merchant-account.com](http://www.fast-merchant-account.com))
- Merchant Accounts Express ([www.merchantexpress.com](http://www.merchantexpress.com))
- Monster Merchant Account ([www.monstermerchantaccount.com](http://www.monstermerchantaccount.com))
- ProPay ([www.propay.com](http://www.propay.com))
- Total Merchant Services ([www.merchant-account-4u.com](http://www.merchant-account-4u.com))

And here's another place to check out—your local wholesale club. That's right, both Costco and Sam's Club offer merchant credit card processing to their business members, at affordable rates.

For example, Costco offers credit card accounts to its Executive members through Nova Information Systems. Costco waives the \$25 setup fee and offers a discount rate of just under 2%. (Of course, the Executive membership itself costs \$100, so you'll need to factor that in, as well.) See the Costco website ([www.costco.com](http://www.costco.com)) or call 888-474-0500 for more details.

Oh, and when you inquire, ask about *all* applicable fees. In particular, check on software integration fees, monthly virtual terminal fees, and the like. You may also have to hit monthly minimums or pay an additional fee. Bottom line—sounds like a good deal, but check the fine print before you sign up!