

Which merchant  
account is right  
for my  
business?  
ISO vs. IPSP



MERCHANTGUY.COM

<http://merchantguy.com>

@MerchantGuy

Questions? [info@merchantguy.com](mailto:info@merchantguy.com)

Accepting debit cards and credit cards is critical for business today. No question. There are a number of banking tools for “HOW” your business accepts credit cards. Many businesses don’t understand there are differences and how it affects their business.

What we want to outline for businesses is the two primary tools for accepting payments and how they are different and how they can effect business.

### **Are you accepting payments from a ISO or a IPSP?**

What is a ISO? What is a IPSP? Why do I care? Well, you should know and you should care. Why? Because it affects your business and your cost and the security of your payments which is your business.

A IPSP (Internet Payment Service Provider) has their own ability to process payments but has higher cost to the business because instead of a bank assessing the risk of the business the IPSP assumes the risk and this directly effects the safety, security, and stability of the merchant account along with increased cost.

IPSP Examples: Paypal, Google Checkout, SquareUp.com, Stripe.com and many others.

A ISO (Independent Sales Organization) is a merchant account specialist that has the ability to adjust the rates and fees that businesses pay. Since a ISO works with credit card processors they have the ability to sign up clients for direct merchant accounts. This allows more account stability, FDIC insured transactions, and reduced processing cost to the business.

The proper usage of both of these types of providers depends on your business. If you have a startup business or testing a new business idea and are doing less than \$3,000 a month in sales than a IPSP is the perfect fit for this business type and size. There is less paperwork but higher cost for this type of account. So this type of account is quick and easy to get setup. If a business is doing more than \$3,000 a month in sales this is a stable business and should look into getting a direct merchant account from a ISO. Having a direct merchant account with a ISO increases the business safety and security of taking payments.

Let's try an example of a starting business doing \$2000 a month in sales and take a look at the fees the ISO and IPSP will assess the business for their transactions.

### **IPSP Cost Example:**

\$2000 in monthly sales

\$20.00 average item price

100 sales transactions per month

Rate: 2.9% + \$0.30

Per transaction cost:  $2.9\% * \$20.00 + \$0.30 = \$0.88$

Total Monthly Fees:  $\$0.88 * 100 = \$88.00$

**Total Monthly Profit:  $\$2000 - \$88.00 = \$1,912.00$**

### **ISO Cost Example:**

\$2000 in monthly sales

\$20.00 average item price

100 sales transactions per month

Fees:

Online Gateway: \$25.00 a month

Statement Fee: \$8.00 a month

Rate: 2.25%+\$0.20

Per transaction cost:  $2.25\% * \$20.00 + \$0.20 = \$0.65$

Total Monthly Fees:  $\$0.65 * 100 + \$33.00 = \$98.00$

**Total Monthly Profit:  $\$2000 - \$98.00 = \$1,902.00$**

After seeing this example the IPSP saves the business **\$10.00 a month**. Along with savings the business saves the 2 - 3 business days it takes to setup a direct merchant account and the underwriting process. This is the proper usage of a IPSP account and the business profits from it's correct usage.

After some advertising and marketing our business example has created a success and has grown to \$10,000 in sales per month. Let's take a look at the new breakdown and see which type of account is the best to have.

### **IPSP Cost Example:**

\$10,000 in monthly sales

\$20.00 average item price

500 sales transactions per month

Rate: 2.9% + \$0.30

Per transaction cost:  $2.9\% * \$20.00 + \$0.30 = \$0.88$

Total Monthly Fees:  $\$0.88 * 500 = \$440.00$

**Total Monthly Profit:**  $\$10,000 - \$440.00 = \mathbf{\$9,560.00}$

## **ISO Cost Example:**

\$10,000 in monthly sales

\$20.00 average item price

500 sales transactions per month

Fees:

Online Gateway: \$25.00 a month

Statement Fee: \$8.00 a month

Rate: 2.25%+\$0.20

Per transaction cost:  $2.25\% * \$20.00 + \$0.20 = \$0.65$

Total Monthly Fees:  $\$0.65 * 500 + \$33.00 = \$358.00$

**Total Monthly Profit:**  $\$10,000 - \$358.00 = \mathbf{\$9,642.00}$

You see from the breakdown that the ISO provides the business a **\$82.00 savings per month**. In addition to the savings the business receives.

- A direct relationship with banking partner
- Risk and underwriting from banking partner
- Reduced rates & rate reduction for future growth
- Direct Deposits to checking account
- Additional tools for future growth

We have all heard the horror stories of a great business using a IPSP doing lots of sales then all of a sudden their account was “frozen”, “suspended”, or put “under review”. This has destroyed many successful businesses that could of avoided this problem by getting a direct merchant account through a ISO. This enables the business to grow and thrive safely and securely with no risk to incoming revenue.

You know your business. We just want you to be informed about how different banking tools work and which type to use for your business. It's important to have the right tool for the job and it's important to have the right banking partner for your business. Having this knowledge protects your business.

If you are using a IPSP for your business and doing more than \$3,000 a month in sales we encourage you to contact us and get a direct merchant account. It's much easier to get a direct merchant account setup when business is good than contacting us in a panic when you can no longer accept payments.



<http://merchantguy.com>

@MerchantGuy

Questions? [info@merchantguy.com](mailto:info@merchantguy.com)