

Optimizing the Payment Process in SAP

As a company, your goal is to serve your customers effectively, efficiently generating sales and collecting revenue. The nature of the sale and payment can take many forms, but many SAP users have noticed that customers have become more prone to using credit cards as a method of payment.

While credit cards are a convenient payment form for customers, it can be costly for a vendor; processing fees can range as high as 2.5 to 3.4% or more of the transaction total. Although SAP includes some of the capabilities required for card payment (known as the “payment card interface”), it requires additional software in order to complete the transaction with the payment system, secure the customer’s information, and provide critical data to the finance group to reconcile the transactions and deposits at the end of the day.

This white paper describes SAP’s requirements for processing payment cards. It also presents tips for getting the best bank rates and simple “Do’s and Don’ts” to help you optimize payment processing, save employees’ time in managing back-office payment functions, and substantially lower overall interchange fees to reduce processing costs. We will then offer a solution to optimize the SAP payment process. Using the best practices described in this paper, companies can streamline their operations as well as save thousands.

Card Payment in an SAP Environment

The SAP ERP was designed to accept and store customers' payment data ("the payment card interface"), but not to transmit it to payment processors, nor to receive data back from the processor. SAP needs a payment application in order to electronically connect to the payment system.

Payment Application

A payment application adds both mission-critical capabilities and optimization features that enable SAP to process payments, including:

- Collects and encrypts the customer's payment data for transmission
- Generates the request for permission to charge the card (authorization)
- Builds a list of transactions that have been authorized (and delivered, if done after the sale, and that is a condition of settlement)
- Securely transmits this settlement file to the processor and tracks acceptance of the file by the processor

These functions are critical; SAP cannot process, settle or reconcile credit card payments without a 3rd party payment application. In addition, some vendors also offer a number of add-on features that optimize the payment and reconciliation process.

Transaction Reports

While SAP features several basic financial reports, over the years the SAP ERP community has requested more detail for easier summation and use. Some vendors of payment applications have a library of add-on reports to enhance SAP's basic capabilities. These augmented reports give you fast access to both high-level data and information about individual transactions and can be customized for specific needs.

Lower Interchange Rates

Implementing standard payment processes such as address verification (AVS), card security code verification (CVV or CID), and collection of Level 2 and Level 3 data can reduce the rates you pay for payment processing. If your version

of SAP doesn't include these capabilities, your payment application can fill in the gap.

Reconciliation

Reconciliation is the process of balancing the books after a batch of transactions have settled. SAP companies can do this automatically using an enhanced payment application. During reconciliation, SAP users can:

1. Verify that transactions on the SAP settlement reports and their bank deposit statements are the same, and ensure all attempted transactions succeeded. Any failed transactions must be investigated.
2. Review the summary of processing fees, to ensure that charges are correct. For example, a batch of transactions might contain \$1,000 worth of purchases but only \$965 is deposited into the company's account. The summary file describes where the \$35 in fees went.
3. Research specific problematic transactions, such as a failed transaction due to an invalid card number.

Manual reconciliation of discrepancies is a time-intensive and error-prone process. Many SAP user companies like to automate this process using reconciliation software. Reconciliation software can automatically receive the deposit file from the payment processor directly into SAP and then reconcile it with the company's own transaction/settlement file, highlighting information such as:

- **Fees** – may be assessed daily or monthly
- **Chargebacks** – can be positive or negative
- **Transactions** rejected by the processor when the settlement is received
- **Transactions** rejected in the overnight settlement processing

Getting the Best Processing Rates from the Banking System

Once you have the appropriate payment application in place, you can improve the interchange rates you are charged by your acquiring bank for transaction processing. In general, interchange fees are lower for transactions with reduced risk and for transactions that include additional line-item detail.

Take these steps to achieve the best interchange rates:

1. Collect Additional Data

Companies can reduce fees by providing as much information as possible about the customer leveraging cardholder information and the products being purchased. Collecting the following details with the transaction helps lower interchange fees:

- **Customer's billing address**– The payment system can use the Address Verification Service (AVS) to validate the accuracy of data. Having an accurate billing address that matches the card number substantially lowers the risk of fraud for the transaction.
- **Security code** – also called card verification value (CVV) or card identification number (CID). The security code is the three- or four-digit number printed on the card itself. This code is not printed on sales receipts or account statements, nor is it stored in payment systems, so providing a valid CVV helps customers prove that they have the printed card in their possession, again lowering the risk associated with the transaction.
- **Data about the purchase** – For transactions conducted with purchase cards, companies can collect Level 2 and Level 3 data, which provides additional details about the customer and items being purchased (itemized sales tax, item codes, descriptions, units of measure, etc.)

2. Avoid Chargebacks

A chargeback occurs when a customer disputes a charge with the card company, usually on the grounds that the charge was unauthorized or fraudulent. Chargebacks are expensive to process since they are often associated with fraudulent transactions.

If your company incurs too many chargebacks, you could incur fees. It's a much less expensive alternative—not to mention better customer service—to address any disputes directly with customers, and to credit their cards yourself if necessary. Credits, or returns, are a normal part of payment and do not incur penalties like chargebacks do.

3. Find the Right Processor

Payment processors have varying rates and rules. It's worth your time to shop around for a processor and to read the fine print in their agreements. Look for rates that fit your transaction volume and keep an eye out for hidden fees.

4. Connect Directly to Processors and Card Companies

Companies can lower their interchange rates by connecting

directly to a payment processor rather than through an intermediary. This is particularly important if you are processing internationally with multi-currency payments.

NOTE: This is most likely to occur with American Express, so consider a direct connection to them if your transaction volume is sufficient.

Do's

- **Do** research the options for direct connections to payment processors to get the best rates and ask your bank who they prefer.
- **Do** ask your bank to identify the “break points” at which you are entitled to better rates – these may be based on transaction volume or dollar volume.
- **Do** collect:
 - CVV/CID codes
 - Level 2 and Level 3 data for purchase card transactions
- **Do** settle transactions within three days of authorization or create a small authorization at the beginning of the purchase to confirm the validity of the card.
- **Do** monitor your processor account regularly for any significant change in fees, and to verify that you're being charged the correct rates.

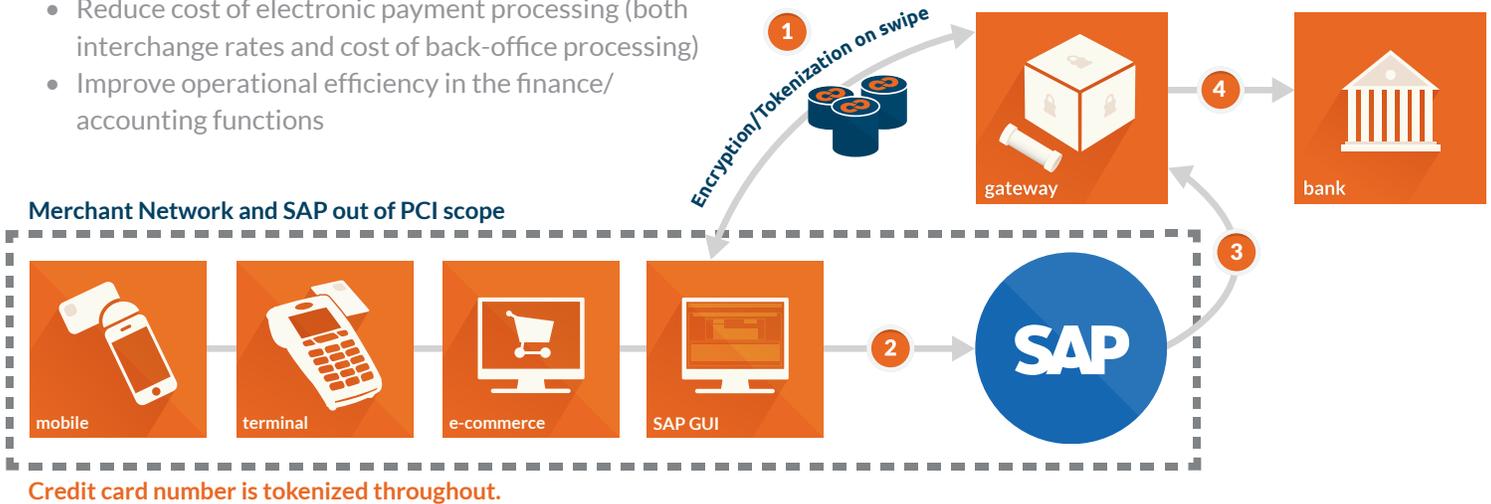
Dont's

- **Don't** accept expired cards. Make sure to check the expiration date before accepting the card. This issue is particularly important for recurring payments.
- **Don't** do multiple authorizations for the same transaction, since each authorization ties up customer's available credit.
- **Don't** let a dispute with a customer progress to the point of a chargeback.
- **Don't** choose a processor without reading the fine print.
- **Don't** do payments and reconciliation functions manually—automate them to reduce errors and increase efficiency.

The Solution

Without a certified payment application, SAP is not able to perform authorizations or conduct settlement activities to complete payments. Optimizing payment processes with proven, tailored, secure software helps companies:

- Expedite the order-to-cash cycle
- Protect customer data and comply with card association and government security mandates for data in processing, transit, and at rest
- Reduce cost of electronic payment processing (both interchange rates and cost of back-office processing)
- Improve operational efficiency in the finance/accounting functions
- Expand revenue opportunities by supporting global payment options, such as multiple payment channels, business to business purchase card support, and multicurrency support



Because there are so many crucial areas to consider when implementing a payment system in SAP, it's important to work with a partner who understands both payments and security, has experience with SAP and its design, and is fluent in the demands and restrictions of the payment community. CardConnect can help you deploy a cost-effective and efficient payment application that works flawlessly and saves your company the maximum amount of money and time in its payment processes.

Our product suite includes a variety of industry-leading software products designed to complete and enhance the payment process in SAP:

CardConnect - Adds fully-integrated Authorization and Settlement to SAP

CardSecure - Protects payment card information in SAP with powerful encryption and tokenization technology that helps companies protect their customers from identity theft

CardConnect: A History of Protecting Payments for SAP

- **1997:** CardConnect builds first payment gateway integrated to SAP for Fortune 500 corporations.
- **2004:** CardConnect builds CardSecure, a payment card encryption solution for SAP.
- **2006:** CardConnect's payment gateway validated as PABP Compliant under Visa's Payment Application Best Practices program.
- **2009:** CardConnect's payment gateway validated as PA-DSS Compliant and listed on the PCI Security Standards Council website.
- **2010:** CardConnect's payment gateway validated as PCI-DSS Compliant and listed on Visa Service Provider Registry.
- **2012:** CardConnect's PANPAD, a terminal that encrypts card data at the point of entry, named winner of Security Products Guide's Global Excellent Award.
- **2013:** CardConnect develops proprietary P2PE solution in response to security risks for point-of-sale transactions.
- **2013:** CardConnect receives United States patent for token-based payment processing



CardConnect will help your company plan, specify, and implement a full payment solution for SAP. Our years of experience show themselves in the quality of our products, which are long-proven and exceptionally reliable. CardConnect users appreciate our simple, direct and no-nonsense approach to building out the right system quickly. And to ensure smooth deployment, our experienced integration team is available for installation, implementation of, and training for the new payments infrastructure.

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