# Differences between Payment Gateway and a Merchant Account

Virtually all businesses—from big-box retailers to Etsy merchants, from trade show merchants to antique sellers—accept payments in the form of credit cards. And here is the fact: more and more businesses are accepting online payments in this fast-paced, ever-changing and complex e-commerce industry.

If you’re already accepting credit card payments from online sales, then you must be at home with merchant accounts. However, if you’re a newbie in e-commerce, then you must be grappling to learn about payment gateways. So, what’s the difference between merchant accounts and payment gateways?

Well, in “***Differences between Payment Gateway and a Merchant Account***” we’ve decided to break it down for you. Let’s get started.

## What is a merchant account?

A merchant account is an online bank account that temporarily holds your money once payment has been approved by a payment gateway. After a successful payment, money will stay in your merchant account for a few days (between 2 to 7 days) after which it will be transferred to your real bank account.

There are two main types of merchant accounts. These are:

* Dedicated Merchant Account
* Aggregate Merchant Account

### Dedicated Merchant Account

A dedicated Merchant Account provides you with total control over your funds. For every transaction that’s conducted, the merchant account provider deducts processing fees and the rest of the money is deposited into your business account. You can set up your account with payment gateway systems such as Authorize.Net, PayLeap, and Blue Pay Processing LLC.

Some of the actions that you can take while using a dedicated merchant account are:

* Debiting your account in case your customers make charge-back claims
* Correcting the errors in the transactions
* Taking necessary actions in case there’s an evidence of fraudulent activity

### Aggregate Merchant Account

In this type of account, the money that customers pay is pooled with other companies. For you to open such an account, you must provide details about your company and the type of products and services that you’re dealing with. Since the amount of money in your account is pooled with other companies, you don’t have exclusive control over the account. In fact, you can’t negotiate the rates when using this account.

## What about a payment gateway?

A payment gateway is an e-commerce application system that permits credit card payments for e-commerce transactions, online retailing and traditional brick and mortar transactions. When customers are buying goods and services from your online store, they fill out their credit card details during the checkout process.

Your online store will then send the credit card data that has been entered during the checkout process to the payment gateway to authorize the transaction and process the payment. During the processing, all the payment gateway does is to verify whether the information customers have submitted matches the data that’s available on the credit card. If they match, then the payment is approved and money is then transferred from the customer’s account to your merchant account.

Some of the popular payment gateways—that don’t require merchant accounts—include PayPal, Stripe and Simplify Commerce.

The main feature of these payment gateways is that you will not need to change bank accounts. Or, perform anything special for you to get up running with the payments processing. Furthermore, it’s easier to integrate these systems with your online store.

But still, there are downsides too. First, there are higher transaction charges that you’ll incur when using these payment systems. Second, virtually all modern payment gateways always send customers to off-sites while making payments. This often reduces the conversion rates for some stores.

I know you’re thinking, “***What is the difference between online and off-site and on-site payment gateways?***”

Well, with the on-site payment gateway, a customer remains on your website for the entire duration of the shopping experience. Here’s how an on-site payment gateway works:

* A customer arrives at your online store.
* He/she adds the products or services to their shopping cart
* He/she proceeds to the checkout page.
* He/she enters their customer and billing data.
* Submits the order.
* Receives the order confirmation.

If you’re using HubSpot COS, you can try using the [DepositFix](http://www.depositfix.com/) forms. The forms can help you accept payments using HubSpot forms and run your marketing campaigns based on the purchases. With off-site payment gateway, a customer is taken outside of your online store to complete the checkout process.

## So, which option is right for your business?

Merchant accounts have been with us for quite some time since the coming on of credit cards. If you’re a retailer that sells primarily from the brick and mortar stores, then setting up a merchant account can help you increase your cash flows in the business.

On the other hand, the payment gateways are ideal for e-businesses and other mobile retailers. When you use this payment gateway, the retailers can easily enter and approve their credit card details from their mobile devices.

## Putting it together

Adding a payment gateway system or a merchant account to your online store is a critical part of enhancing your business bottom line. When you’re ready to accept payments, you can compete favorably in today’s fast-paced and ever-evolving business environment. I hope this post has been helpful in your search for the differences between payment gateways and merchant accounts.