

Revenue Management

Protect Your Hotel From Fees That Needlessly Drive Up the Cost of Accepting Card Payments

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Mr. Carr

Interchange rates, rate increases and undisclosed mark-ups

No doubt, you have heard the old adage, “you have to spend money to make money.” While there may be relevance to that statement, understanding a few key pieces of information about card processing can ensure you’re not spending more than you have to when it comes to accepting electronic payments.

As a hotelier, accepting credit and debit cards for reservations and room payments is a way of life. However, recently, you may have noticed the mounting cost of these transactions. By the time a card is swiped, processing fees for a single transaction can range from two to five percent of the total sale. The fees for card processing services may be among the three highest expenses your hotel incurs, perhaps outmatched only by labor and property costs. Unlike overhead costs, you might not be sure what you are paying when it comes to processing card transactions. Yet, it is critical to identify all of the fees and surcharges — and who you’re paying them to — so you can further control your expenses and save money.

The fact is there are three components of processing fees you, like every card-accepting merchant, must pay: interchange; dues and assessments; and processing fees. Understanding exactly what these fees are — and why you’re paying them — can help you eliminate unnecessary costs and boost your bottom line.

Interchange

Interchange is the fee charged for passing financial transactional information back and forth between your hotel, your payments processor, the card brands (such as Visa®, MasterCard® or Discover® Network) and the banks that issue credit and debit cards. Interchange rates are determined and imposed by the card brands so banks that issue credit and debit cards can recoup their costs.

Typically, the card brands increase interchange rates in April and October. Unfortunately, many payments processors seize these opportunities to inflate the rate increases without full disclosure ... making money at your expense. For example, if Visa charges an interchange rate of 1.75 percent, your processor may mark that up and charge you 2.6 percent. Yet, disproportionately, when Visa increases its rate to 1.76 percent, you may see an increased rate of 2.65 percent from your processor.

Most processors don’t disclose the breakdown of fees as separate line items on statements and make it seem as though the card brands are charging higher interchange rates than they actually are. Sometimes processors will even send correspondence informing merchants that the card brands have raised their rates, omitting their own increases and making it appear as though the card brand is solely responsible for the upsurge. Under this system, processors can increase their profit margins — while pointing to interchange rate increases as the reason.

This is further complicated by the fact that the card companies apply different interchange rates depending on the type of transaction. There’s one rate for credit card purchases when cards are physically swiped, another when card numbers are keyed in manually and yet another for over-the-phone and online purchases. Compound that by different rates for debit, rewards, corporate and platinum cards, and you end up with more than 250 different interchange rates.

While it’s all cataloged in complex rate schedule documents, Visa’s is more than 20 pages long and MasterCard’s is about 75. It’s no wonder many hoteliers and other business owners are confused. In fact, most people who don’t understand these fees simply go along with the costs to avoid the time and frustration associated with determining the true cost of card transactions.

Dues and assessments

The card brands also charge dues and assessment fees — also called acquirer brand volume fees (ABVFs) — to cover their own operating costs. These charges are determined by the purchase price of a product or service, and while they’re not as complex as interchange rates, it’s important to acknowledge and understand these fees.

Processing fees

On the other hand, payments processing fees can be just as, if not more, complicated than other charges since every processor approaches pricing differently. Often, what initially looks like a “good deal” is not what it appears to be. A processor may quote you a low rate for a specific type of transaction to “make the sale”, but deliberately neglect to point out that only a small percentage of your transactions qualify for that low rate ... and the remainder are charged at a fee that could be as much as double or triple that low rate. Many processors are also notorious for charging “hidden” or “junk” fees. These charges are disguised on monthly statements with cryptic codes and jargon, making them purposefully hard to decipher, especially for time-pressed hoteliers. Security fees, membership fees, access fees and compliance fees are just a few of the many vague, deceptive fees you may find on your processing statement if you take a closer look. Processors have clever ways of disguising unjust fees. For example, when reviewing your statement, look to see if the card type is identified for each transaction. If it’s not, you may be paying more than necessary for lower-cost transactions. Debit card transactions, for example, usually cost less than credit card transactions.

Many processors also impose arbitrary fees, such as “bill-backs” and “surcharges,” on top of your “low” discount rate without disclosing them to you. There may be fees from PCI security to batching, authorization, annual charges and more, increasing your per-transaction cost with no added value.

These bill-backs and surcharges are nearly impossible to identify and quantify on your bill. Some charges are contained in the month the transaction occurred, while others appear in the following month with little or no explanation. For instance, you might see some surcharges for April 15 on your April bill and the rest on your May bill. Surcharges might be listed as, “Surcharge 06/15/10: \$0.34”, leaving you wondering if the charge refers to the day’s sales or one transaction and why it was charged — and with no way to reconcile your charges or figure out net costs and profits for transactions.

Card processing comes with many different nuances and complexities, but when you know the facts, you can control your costs and protect your bottom line. As we enter a new season of interchange rate increases, be vigilant in examining your processing statements. Try to identify the source and reason for each charge, and note — and question — those left unexplained. Don’t hesitate to ask your processor for assistance. You can also consider having your accountant or even another processor take a look. At no cost to you, some processors will walk you through your statement to help uncover hidden fees and show you where you can save money.

By understanding as much as you can about card processing and the associated costs, you’ll be empowered to decide whether to continue filling your payments processor’s pocketbook — or to keep that money in your hotel, where it belongs.

Bob Carr is chairman and CEO of Heartland Payment Systems. Mr. Carr co-founded Heartland in 1997, and took the company public in 2005. Heartland has 150,000 customers and 2,250 employees - and increased its portfolio to almost \$55 billion. Mr. Carr has written articles to educate merchants on the acquiring industry. He spearheaded "The Merchant Bill of Rights" to promote fair credit and debit card processing practices for all business owners. Mr. Carr holds a B.S. and M.S. in mathematics and computer science from the University of Illinois. Mr. Carr can be contacted at Bob.Carr@e-hps.com

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