

Hotel Business Review

Best practices, insights & trends

Seven Best Practices for Managing Card Processing Costs

By Bob Carr, Chairman & CEO, Heartland Payment Systems



Westin Hotels & Resorts (then known as Western Hotels) made hotel history in 1946 when they introduced and issued the first guest credit card – a tremendous innovation for customers and the industry alike. They upped the ante in 1983 when they became the first major hotel to implement a comprehensive credit card reservation and check-out system.

These advances sealed Westin's reputation as a leading-edge hotelier. They also put the hotel industry squarely at the forefront of payment card acceptance, solidifying its leadership position in the rapidly expanding credit card market.

But along with the advantages of innovation, technology often brings headaches. Credit, debit and prepaid cards are no exception. While hoteliers and their guests have enjoyed the convenience and accessibility of cards for years, they – like you – have also struggled with the rising costs of accepting credit and debit cards.

Interchange rates, merchant acquirers, hidden fees, multiple middlemen and other influences all contribute to escalating costs. In fact, processing costs are now often one of the four highest expenses on a hotelier's income statement. With a majority of clients using credit and debit cards for payment, these charges can have a significant impact on revenue.

This is especially true for small and mid-sized hotels and franchises. Without the clout enjoyed by larger chains, smaller competitors cannot negotiate for lower rates as easily or ensure reliable customer service.

Worse, many smaller hoteliers don't understand the transaction clearing process and its impact on their statements. This can expose them to over-charging and hidden fees on top of the already high cost per transaction. With the right education and resources, owners of small and mid-sized hotels can reap the benefits of card acceptance while managing the associated complexities and costs.

Here are seven tips to help you better understand and jump start the process:

1. Understand your account statements. Credit and debit card processing statements can be confusing, so ask plenty of questions. Make sure your card processing company takes the time to explain the statement and walks you through the accounting behind their service charges. If your account representative will not commit to this level of service, consider switching to a company that is more willing to disclose the details. Often, their resistance to statement review equates to deceptive pricing strategies.
2. Be aware of hidden fees, surcharges and middlemen. There are many ways card processing companies surcharge their customers with fees that have nothing to do with the interchange costs incurred by the card associations. Spend time with your account representative to truly understand how the card processor's business is structured and what fees or surcharges are likely to appear. Knowledge is your ally when initiating these types of relationships.

In addition, demand full disclosure of all middlemen involved in processing. These can include several levels of independent contractors and independent sales organizations – as well as POS dealers, software providers and network providers. Sometimes, there are as many as 12 different – and unnecessary – middlemen involved who just bring increased charges to the table.

3. There's more to a processing company than the "lowest rate." The base interchange rate most companies quote is for processing a basic card transaction. The interchange rate charged for affinity cards, rewards cards, and signature cards – the primary cards used by most hotel clients – are significantly higher.

Take note of the cards your clients use, and make sure the rate on those cards is competitive. To do that, you must understand the charges for debit cards, rewards cards and basic credit cards. While a simple, single rate is ideal, the interchange rate structure makes that impossible unless you are willing to pay more than necessary each month. It's well worth the time to understand all variables and associated costs now so you can save money later. Once again, the more you understand, the better equipped you'll be to make good business decisions.

4. Don't get duped by expensive equipment leases or add-ons. Be careful when card processing companies offer leasing deals. The typical card processing terminal costs approximately \$400 at large big-box retailers or on the internet, yet merchants are known to get locked into four-year, \$50-per-month, non-cancellable leases. That means a \$400 terminal you can buy yourself can cost you \$2,400 to lease.

5. Upgrade your POS software. Legislators and card associations are serious about protecting card transactions from fraud. Merchants who do not comply with industry-specified security regulations can face significant fines – to the tune of tens of thousands per month. Processing companies should encrypt card numbers based on legal requirements to safeguard credit and debit card account information. Check with your POS software vendor to ensure the software version you use is compliant with current industry security standards.

6. Remember: Card processing services are mission-critical. Most hotel owners put their revenue in the hands of card processors. But don't be fooled into buying those services automatically. Do your homework, and proceed cautiously before entering into a long-term relationship. A small problem that delays a transaction can have devastating effects to the tune of unhappy customers and lost revenue. Make sure your account representative and your servicing representative are reliable and available when issues arise. And if the card processing system crashes when check-in lines are out the door, know who will be there to fix it.

7. Know your rights. As a hotelier, you have rights when it comes to card processing. The Merchant Bill of Rights (see sidebar), launched in 2006 and proposed as the new processing industry standard, outlines 10 fundamental rights that ensure fair treatment, competitive costs, robust security, reasonable equipment costs and top-notch customer service for owners of small and mid-sized businesses.

To learn more about your rights – and how you can protect them and gain control of rising card processing costs – visit www.MerchantBillofRights.com.

It's been almost 25 years since The Westin changed the way hotels handle credit cards. During that time, consumer adoption and use of debit and credit cards for payments has also changed. Accordingly, the industry continues to learn and grow in its payment processing practices. Now, it has the opportunity to take card acceptance to a new height – instituting fair practices for merchants of all sizes.

With just a few common sense moves – and by equipping yourself with an understanding of the processing industry – you can follow Westin's footsteps, creating even better best practices that drive down the costs of doing business and advancing the industry overall. Those are rewards everyone can take to the bank.

THE MERCHANT

Bill of Rights

- 1 The right to know the fee for every card transaction—and who's charging it.
- 2 The right to know the markup of Visa/MasterCard fee increases.
- 3 The right to know all Visa/MasterCard fee reductions.
- 4 The right to know all transaction middlemen.
- 5 The right to know all surcharges and bill-backs.
- 6 The right to a dedicated local service representative.
- 7 The right to encrypted card numbers and secure transactions.
- 8 The right to real-time fraud and transaction monitoring.
- 9 The right to reasonable equipment costs.
- 10 The right to live customer support 24/7/365.

To learn more about your rights, visit MerchantBillOfRights.com or call **888.280.MBOR** (6267).

Robert O. Carr has served as Chairman of our board of directors and as our Chief Executive Officer since our inception in October 2000. Mr. Carr had been Chairman of the Members' Committee and Chief Executive Officer of our predecessor, Heartland Payment Systems LLC, from March 1997 to October 2000 when the merger of Heartland Payment Systems LLC into our company became effective. Mr. Carr co-founded Heartland Payment Systems LLC with Heartland Bank in March 1997. Mr. Carr joined Heartland Payment Systems LLC after selling his interest in Credit Card Software Systems, Inc., an Independent Sales Organization he founded in 1987, specializing in the travel and entertainment industry. Mr. Carr received a B.S. and M.S. in mathematics and computer science from the University of Illinois. Contact him at Bob.Carr@e-hps.com