

Hotel Business Review

Best practices, insights & trends

Understanding Your Card Processing Statements

By Bob Carr, Chairman & CEO, Heartland Payment Systems



When hoteliers like you are asked what their primary concerns are in successfully running their businesses and increasing their profit margins, some of the answers are expected: keeping guests happy, matching the competition's prices, acquiring more market share. What is unexpected is the number who cite unfair and confusing card processing fees as something they are forced to contend with as they look to grow and maintain a successful business.

Consider how much of your total revenue comes from payments made on your guests' credit and debit cards. It is very possible you could increase your profit margin on every transaction by taking a closer look at the costs incurred with processing those payments.

Indeed, the cost of processing credit and debit card transactions can range from 2 percent to 5 percent of the total sale when everything is considered. But where do these costs go? Most hoteliers haven't a clue because most merchant acquirers – the companies they contract to handle card processing – don't fully disclose rate increases, fees or the reasoning behind them.

That's why The Merchant Bill of Rights was established in 2006. Supported by industry leaders and trade associations, three of its 10 planks call for card processing pricing transparency so hoteliers and all business executives know what they're paying for and why. The goal is to empower businesspeople to reconcile their fees and manage the costs associated with card processing.

Pricing transparency begins by understanding Visa and MasterCard's interchange rate structure. Interchange is the fee these card associations charge for each transaction. Typically, Visa and MasterCard adjust rates in April and October, and merchant acquirers adjust their base processing rates in tandem. However, many card processors raise their rates significantly and then blame the card associations for the increase.

For example, say Visa and MasterCard charge an interchange rate of 1.75 percent. A merchant acquirer may mark that up and charge the merchant 2.6 percent. When Visa and MasterCard then increase rates to 1.76 percent, the acquirer may further increase its rate to 2.65 percent. That's why most acquirers don't reveal the exact percentages to merchants. Instead they simply disclose that Visa and MasterCard raised their rates. Under this system, acquirers are able to raise their profit margins - while pointing to Visa and MasterCard's increases as the reason.

This is played out in other areas of interchange rates as well. It has become customary for hotels to accept reservations and payments over the phone or online. However, very few realize that Visa and MasterCard give different interchange rates for every possible method of transaction. There's one rate for credit card purchases when cards are swiped, another when card numbers are keyed in manually, and yet another for over-the-phone and online payments.

Now, consider how infrequently your guests use a plain vanilla credit card. Every variety of card – including rewards, corporate, gold, and platinum – usually carries a different rate. This means there are a myriad of permutations of interchange rates.

It's all cataloged in complex rate schedule documents. Visa's is over 20 pages long, and MasterCard's extends to about 75. The result: baffled hoteliers who can't make heads or tails of their costs and simply go along with the charges to avoid the time and confusion associated with their true processing costs.

That reality is the foundation of the second tenant of The Merchant Bill of Rights: Merchants have the right to know the markup of Visa and MasterCard fee increases in plain English. Hotel owners and executives should be able look at a credit card statement and know which fees are charged by the credit card association and which are added by the merchant acquirer. This is particularly relevant for small and mid-sized hotels since they often do not have the internal resources to research arbitrary rate increases.

Nevertheless, even the biggest businesses in the world deal with this issue. Wal-Mart brought a class action lawsuit against Visa and MasterCard in 2003 calling for hundreds of millions of dollars of debit processing fee reductions. The giant retailer won, and Visa and MasterCard dropped their debit card interchange rates considerably.

However, most merchant acquirers didn't drop their corresponding rates as a result. Four years later, many hoteliers are still paying pre-settlement debit card processing rates and padding merchant acquirers' pockets. Are you one of them? Likely so.

This is why the third plank of The Merchant Bill of Rights states that merchants have the right to know all Visa and MasterCard fee reductions. And when these fees are reduced, hoteliers should see an associated decline in processing fees from their merchant acquirers. This is particularly important because fee reductions can save a significant chunk of change for small and mid-sized hotels that often operate on tight margins – and represent major savings for large hotels that receive so much revenue through card transactions.

Still, some merchant acquirers' unjust pricing goes further than manipulating Visa and MasterCard fees. They often tack extra charges – known as surcharges and bill-backs – onto hotels' transactions for arbitrary reasons. These can include increased rates when a guest's card is not present or doesn't go through the scanner. Perhaps unbeknownst to you, these fees often spell pure profit for merchant acquirers.

In addition, similar to the varying rates set by Visa and MasterCard for different types of cards and transactions – such as corporate or travel cards and payments made online – merchant acquirers add surcharges to the already costly transactions.

To complicate matters, these surcharges and bill-backs are nearly impossible to identify and quantify on most hotels' lengthy credit card statements. Some charges are contained in the month the transaction occurred and others in the following month – with little or no explanation. For instance, you might see some surcharges for July 15th on your July bill and the rest on your August bill.

In addition, surcharges might be listed as, "Surcharge 07/15/07: \$0.34." You may have no idea if the charge refers to the day's sales or one transaction – or even why you were charged. This leaves no way of reconciling charges and figuring out your net costs and profits for transactions.

This is why the fifth plank of The Merchant Bill of Rights calls for knowledge of all surcharges and bill-backs. With a mountain of expenses to already track and manage, you should have clear and detailed information that allows you to understand and reconcile your charges. There's no reason to complicate this with unnecessary and vague surcharges and bill-backs.

The bottom line: Card processing comes with many different nuances and complexities, but there are ways to control the cost to your business. Read your next statement with a careful eye. Try to identify the source and reason for all the charges, and you will likely see how much is left unexplained. The first step to ensure your hotel is not paying unnecessary charges is to educate yourself. And, you can educate yourself by visiting www.MerchantBillOfRights.com.

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Knowledge is power. By understanding the card associations' interchange rates and fee increases and reductions, you will be empowered to decide whether to continue filling your processor's pocketbook – or look for a more cost-effective and transparent processing provider.

Bob Carr serves as chairman and chief executive officer of Heartland Payment Systems, the nation's sixth largest payment processing company. Heartland is ranked 15th in the global market, processing more than one billion payment transactions annually. Mr. Carr co-founded Heartland Payment Systems with Heartland Bank in 1997, and took the company public in 2005 under the symbol HPY. In its ten years, Heartland has grown to 150,000 customers and 2,250 employees - and increased its portfolio to almost \$55 billion of bankcard volume. Mr. Carr has written numerous articles educating merchants on the inner workings of the acquiring industry - striving to help owners of small and mid-sized businesses understand the complexities of credit and debit card acceptance and control the associated costs. Recently, he spearheaded a revolutionary initiative called "The Merchant Bill of Rights" to promote fair credit and debit card processing practices on behalf of all business owners. Mr. Carr holds a B.S. and M.S. in mathematics and computer science from the University of Illinois. He can be contacted at 888-798-3131 or Bob.Carr@e-hps.com.