

Acutely analyze credit card-processing fees

June 16 2014

The ability to negotiate for lower credit card-processing fees is often overlooked due to the complicated nature of the industry.



By Jason Q. Freed
Contributing Editor, Tech Impact Report

REPORT FROM THE U.S.—While credit card-processing statements can appear as a complicated jumble of numbers, it's important hoteliers take a close look at their fees regularly to ensure they're not being overcharged.

Some fees beyond the base rate are negotiable, sources said, and often credit card processors will inflate rates with little or no warning. Hoteliers who do not pay close attention can wind up shelling out too much in fees.

"If you're not looking closely at your analysis statement, things can bump up," said Maria D'Alessandro, senior VP and CFO of Hospitality Ventures Management Group. "Something can happen where you're bumped up to a higher rate. Are they correctly charging you at those rates?"

For example, when credit card processors began accepting plastic as either credit or debit card transactions, the merchant was supposed to be charged a lower rate if the buyer chose the debit option. Some processors didn't automatically reduce the rate, D'Alessandro said, and if merchants haven't looked closely they still could be charged the "credit" rate.

However, credit card-processing statements are often paid and dismissed without even a glance. The credit card-processing industry is very intricate, and there are a lot of moving pieces and parts. The negotiating of rates and bill paying often lies in the hands of a CFO or controller, and very few of them have received training on understanding the ins and outs of credit card fees, said Jarett Livingston, VP of Independent Merchant Group, a third-party auditing company that will look at a hotel company's credit card statement, alert it of any possible savings and sometimes negotiate lower processing rates.

"It's this big blur, in my opinion, it's the Wild West," Livingston said of the credit card-processing industry. "A lot of (hoteliers) don't even open their merchant statements because they're too confusing to understand. They're in the dark on all of the fees on a credit card statement."

Livingston doesn't blame merchants or credit card processors for excess fees that are, according to him, routinely charged and paid. Often they're simply overlooked, he said.

"Say your business was at a certain size in the late 1990s, but since then your business has grown," he said. "You may have outgrown the pricing that was introduced to you in the 1990s. But you just don't think about it; you think you're getting treated the best way possible because your brand had a partnership.

"Lo and behold, you can go back and restructure those fees," he said.

Nuts and bolts

If branded, hoteliers can either negotiate processing fees themselves or allow their brands to do so.

The credit card brands—MasterCard, Visa, American Express, etc.—set what is called an interchange rate, which is a percentage of the transaction that the merchant will be charged, depending on the transaction type. If payment is accepted in person, the rate is typically lower than a payment consummated over the phone because the fraud risk is less. Interchange rates are set in advance and are non-negotiable.

Where it starts to get complicated, D'Alessandro said, is identifying the additional fees that are negotiable. Some processors will charge additional percentages and others might charge straight fees per transaction. Hoteliers should use available formulas and analyze how many transactions they process a month to determine what rate strategy is best for them.

"You need to understand if your number of transactions goes up what could happen to your business," she said. "If your room rate goes up as well, maybe it's best to have a flat fee structure."

HVMG manages 41 hotels. For the handful that are flagged under Marriott International, Marriott requires its managers use the Marriott preferred processor, D'Alessandro said. Outside of those, several other owners have built relationships with certain banks—through past credit card processing or mortgage lending—and therefore want to honor those relationships. But for the majority of the HVMG portfolio, D'Alessandro negotiates credit card-processing contracts.

"It's not just the credit card fees (that are negotiable)," she said. "The chargeback process; what is that process? The (payment-card industry) compliance; how do you ensure they're PCI compliant? Those are all things to look at."

Changing partners

Livingston said the value of the relationship between the hotelier and the bank must be honored. Once his firm identifies areas of cost savings, it typically goes back to the current bank and attempts to restructure the fees.

"In doing so, naturally there's going to be a savings. This is on a go-forward basis," he said. "Once the restructuring is done, it's a month for us to cycle through the next merchant statement. That's when I go back to the business and put an analysis together to clearly show what you were paying and what you're paying now."

Livingston said he often sees 10-year-old payment structures that can be restructured at first glance. Other times the contracts are pretty well organized and there is little savings to be had. He rarely suggests hoteliers switch processors.

"When we speak with banks about retention we speak the same language," he said. "We're actually helping banks secure their business for the next 10, 15, 20 years. If you're transparent, why would a merchant ever leave you? If you have your business priced incorrectly, they'll find another credit card processor."

In addition, for the hotel, it's easier not to switch, Livingston said, adding "there are less signatures to obtain and it's always easier to stay where you are."

D'Alessandro agreed.

"I considered (switching)," she said. "But when you start looking at prioritization and you start asking 'I get how many basis points back?' you ask yourself if it's worth the time. Most hotels, they're accounting is bare bones to begin with. Even getting the time to go through it is a process."

But D'Alessandro said it's at least worth the conversation.

"If you haven't done the analysis, do it," she said. "It's not rocket science; it's a cost that everyone incurs."