An Epicor® White Paper

# To Surcharge or Not to Surcharge—That Is the Question

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## Introduction

By now, most of you have received e-mails or mailings from your processor notifying you of the newly granted right to surcharge credit card transactions. This right came about as a part of the November 2012 settlement by Visa® and MasterCard® from an anti-trust lawsuit initiated by a consortium of retailers and lobbying agencies. Prior to the settlement, Visa and MasterCard prohibited merchants from surcharging (with the exception of a few select merchant categories), and while American Express® permitted it, it was with the caveat that all cards be similarly surcharged—so really they prohibited it as well.

That's great news, right? It means that merchants now have the ability to recoup the cost they pay to accept card payments. But not all card payments—credit only, not debit or prepaid cards. And not all of the costs, only that part that constitutes the cost paid to Visa and the issuing bank (interchange or the merchant discount). And not always all of that cost either, there's a cap of 4 percent no matter how much you actually pay per transaction.

## To surcharge or not to surcharge

We should also point out that merchants have a choice whether to surcharge at the brand level—meaning all Visa or MasterCard credit cards or at the product level. There are a lot of product types—but a good example is corporate purchasing cards. These "commercial" cards typically carry a much higher merchant discount rate than traditional consumer cards. But no playing favorites—if you surcharge Visa or Visa products you must also surcharge to the same level for MasterCard (and vice versa).

The notification also gave guidance as to what you must do in order to surcharge, including such tasks as providing advance written notification to the card networks and acquirer of the intent to surcharge, adding signage on doors and point of purchase, and surcharge cost detailed on receipts. Add in how to actually get the surcharge right in your POS system and make sure your staff understands how to execute at the point of purchase and the decision to surcharge can become very complicated.

Of course critics of the card networks might claim they are making it hard—that there was a reason they prohibited it in the first place and were sued—and that they don't want you to do it! This may or may not be a fair criticism, but it seems to us it creates a competitive disadvantage against lower cost payment products, like cash, checks and the newer entrant digital providers. Visa, MasterCard and most if not all of the acquiring/processing industry participants typically don't want any process in place that makes a customer think twice about pulling out the plastic.

But let's say that none of these conditions existed and it was as easy as asking "do I want to surcharge?" Let's first look at the retail categories that will very likely take advantage of this right as soon as possible—small and medium sized business services—businesses like your local dentist, accountant, or beauty salon.

For these businesses, the audience is already captured. While there may have been competition for obtaining the customer at the outset, the relationship between consumer and service provider is established and there is little risk in passing on the merchant discount cost to the consumer.

We expect to see surcharging expand in industries where margins are very, very thin. Fuel is a good example of a business category with thin margins where discounts (the flip side of surcharging) had been previously allowed. Allowing surcharges to be applied broadly will likely lead to a more widespread use of the right, and higher prices for consumers who pay by credit card at the pump.

It is my expectation that we will see a much slower adoption in non-service, higher margin competitive retail categories—this includes many of the same merchants that initiated the lawsuit in the first place. Merchants work very hard to price their merchandise competitively and at the margins consistent with successful operation of their business. Customers, especially repeat customers, have an expectation of price, service and acceptance that would be disrupted by a dual pricing model. If the disruption is significant enough, the customer may choose to shop where that disruption does not exist.

## Conclusion

At the end of the day, merchants have benefitted from the settlement. You now have a choice for your business that was not available before. And like many business decisions, this choice comes with pros—1 to 4 percent increase on credit card sales, and cons—implementation, training, administration, impact on consumer preference. As an industry we should all pay close attention to the actions of the nation's largest retailers. Their use of surcharging will greatly influence consumer perception and reaction. From that action, or inaction if that is the direction pursued, then the choice also carries with it opportunity for competitive advantage.

Epicor is proud to work with you and we empathize with our business customers. These new rules are technical and decisions whether to surcharge or not are complex. While we are not attorneys and are not authorized to provide legal advice and counsel, we are happy to share our views which are based on many years of payment card experience, so please do not hesitate to contact us.

## About the author

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## About Epicor

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