Vizant INSIGHT
from the Payments Industry Expert

Organizations are Rapidly Adopting the Practice of Recouping or Recovering Payment Card Fees

A basic business tenet is that a company must factor many variables into how it prices its product or service in the marketplace, including but not limited to: direct cost, indirect cost, target profit margin, competition, etc. While this may seem like a very fundamental concept, it goes to the core of everyday business operations in an economy that continues to be relatively stagnant.

Regardless of the industry or market, organizations are finding it very challenging to increase top line revenue. Over the last few years, the vast majority of companies have reduced operating expenses in order to maintain or increase bottom line profit. It is rare to hear of a company that is increasing its profit without decreasing its operating expenses. Bottom line: businesses adjust to their economic environment.

While no company with responsible management would fail to factor in all of its operating costs into its pricing structure, this is exactly what has happened with the many costs associated with accepting credit, debit and prepaid cards (payment cards). Why? The answer is simple. Years ago, the cost to accept a payment, whether it was a payment card, paper check, bank transfer or other form, was a relatively small part of the cost of doing business. However, this has changed greatly over the years. In some industries with net profit margins now in the single digits, the cost of payment card acceptance can consume a large portion of the bottom line profit. The days of accepting any type of payment, without factoring in the cost of a particular type of payment, are gone.

With the ever increasing cost of financial payments, many organizations are now adding their cost to accept financial payments to the price of their product or service. The nomenclature for recouping or passing on payment card fees to customers or consumer varies, but is typically referred to as ”merchant surcharging,” “checkout fees” or “credit card use convenience fees.” Collectively, they are known as “Direct Surcharging” fees, because they are directly tied to the payment brand or the payment method being used to make a purchase. VISA and MasterCard now allow Direct Surcharging for any merchant that accepts their branded cards.

The rules that VISA and MasterCard have implemented for Direct Surcharging are numerous in nature and very cumbersome for card accepting organizations. In addition, 10 states have outlawed the practice. ***For this reason, most organizations are adopting a practice known as “Indirect Surcharging."*** In essence, this means that a company either adds a new fee related to its business operations or increases an existing fee to indirectly recover the cost of

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About Vizant

Vizant is a thought leader, intellectual resource and innovator in the financial payments industry. As the nation's only independent specialty consultancy and advisory firm focused solely on serving those that accept financial payments, we provide our clients with an unprecedented level of advocacy, guidance, and leadership. Most importantly, we back it all up by implementing solutions that deliver financial rewards to our clients, all with a results based pricing model.

payment acceptance. These new or increased fees are not referred to as credit card fees or tied to any payment type. They may take a variety of names or be masked as many different types of fees. In the end, it is a method to recover some or all of the cost of financial payment acceptance, without actually affecting the top line pricing structure. While this is now a widely accepted practice, companies must consider many factors when adopting Indirect Surcharging, including, but not limited to: the name of the fee, the rate of the fee, how the fee is applied and other components. When not applied with sound strategy or in alignment with an organization's operating structure and current market conditions, Indirect Surcharging can have the opposite effect of what was intended by decreasing revenue due to price sensitive consumers.

This is where Vizant's expertise can be invaluable to your organization.

Vizant has assisted many organizations with the implementation of "Indirect Surcharging," including Fortune 1,000 companies, small local and regional businesses, online retailers, universities, physician practices, medical device companies, non-profit institutions, and travel and entertainment companies. Vizant can customize a program for your organization that fits your industry and marketplace while maintaining compliance with regulations and alignment with organizational profit goals.

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Credit Card Purchases Outgrow Debit for First Time in 20 Years
Smaller Firms Use Financial Management to Compete With Larger Rivals
Report Says Payments Channels Are Blending Together
Mobile Devices Used for Fraction of Bill Payments

Current Payments News

U.S. Companies Continue to Make B2B Payments by Check
Managing Cash Flow and Working Capital Top CFO Priorities
Merchants Face Challenging Deadline for EMV Adoption
PCI Council Issues New Credit Card Security Standards
Competition Intensifies in P2P Payments Market
PCI Compliance Lags in Retail Sector

Featured Articles

Credit Card Purchases Outgrow Debit for First Time in 20 Years

For the first time in 20 years credit card purchases have grown in comparison to debit card purchases, according to a Nilson Report study. The study found that credit cards accounted for 52.82 percent of spending in 2012, up from 52.63 percent in 2011. Meanwhile, debit cards lost ground, falling from 47.37 percent in 2011 to 47.18 percent in 2012. "There is a finite amount of money in deposit accounts owned by consumers," said David Robertson, Publisher of The Nilson Report. "Credit cards are different. Because they can borrow money and pay it

Our reputation as a payment card expert is well established, but our holistic approach to "all things payments" ensures that we assess all payment channels, payment types and payment methods. We perform a comprehensive and unbiased review of your organization's existing payment acceptance environment and provide specific and actionable solutions that will collectively result in the reduction of your costs to accept all kinds of financial payments.

We serve clients across all market and industry sectors, ranging in size from $5.0 million to $20.0 billion in payment transaction volume. The international client list we have built over the years includes B2B and B2C companies, professional sports teams, leading universities and distinguished not-for-profit institutions.

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back over time, they can spend more on credit than they have in their own accounts."

The report projects the upswing in credit card use will continue through 2017, when credit will account for 54.72 percent of purchases and debit 45.28 percent. The report also projects that the total value of spending on goods and services using credit, debit, and prepaid cards will grow from $4.63 trillion in 2012 to $7.29 trillion in 2017. The report also notes that Visa is expected to add to its share of purchase volume in coming years, while MasterCard's share is expected to decline. American Express, which has a larger U.S. credit card share than MasterCard, also should show a gain in that category.

Visa led in terms of market share in 2012, with Visa debit cards pulling in 23.83 percent and Visa credit cards in second place with 21.18 percent, followed by American Express with 12.7 percent. MasterCard credit cards claimed 11.53 percent of all purchases and MasterCard debit cards claimed 9.67 percent. In 2017, Visa's credit card share is expected to grow to 23.65 percent, while its debit card share is seen falling slightly to 22.98 percent. American Express' credit card share is expected to grow to 13.36 percent in 2017. MasterCard's credit card share is projected to decline to 10.8 percent in 2017, while its debit card share is expected to fall to 9.4 percent.

From "Debit Volume Down Against Credit in 20-Year First"
Pymnts.com (11/12/13)

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Smaller Firms Use Financial Management to Compete With Larger Rivals

Smaller companies compete most effectively with larger rivals by conveying what differentiates their products and services to customers and emphasizing that value, according to a study from CFO Research and American Express. Based on a survey of 275 senior finance executives at U.S. companies with annual revenue of between $4 million and $2 billion, the study found that almost 60 percent of companies say their strongest competitor is a bigger company. These small firms take a disciplined approach to finance management as well as spending and investment decisions.

Small companies manage all business aspects with a focus on organizational flexibility to enable them to quickly leverage opportunities. In terms of improving cash and working capital management, smaller firms' finance leaders say their large corporate customers have little interest in resetting payment terms or lowering prices to help smaller firms. To address this, smaller companies apply slow but continuous pressure on collections, payables, and inventory management. In ranking working capital priorities for the coming year, almost 40 percent of respondents placed receivables performance first, while 34 percent chose inventory management. The study also found that companies are beginning to rely more on credit- and purchasing-card float to improve their cash positions.

Financial discipline also will grow over the next two years, according to 82 percent of respondents, as companies seek to ensure that they are strong competitors. With spending, 45 percent of respondents say their companies will spend and invest more over the next year than last year, and just 19 percent intend to reduce spending. Meanwhile, analysts note that competing on price is rarely a sound strategy for small companies, so they must instead focus on a deep understanding of customers that forms the basis of their competitive

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From "Being All Things to Some People"
CFO.com (11/13/13) Hyatt, Josh ; Surka, Matt

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Report Says Payments Channels Are Blending Together

Payment providers are under pressure to concurrently accommodate plastic card payment methods alongside online and mobile commerce in light of consumers' growing penchant to switch between channels when shopping and paying. Providers must now weigh delivering an experience that operates across various form factors and payment types, and enabling payments and orders to be carried out at different times within the shopping experience than previously, according to RBS, which recently released its ninth annual World Payments Report with Capgemini. "Across the board, there was a blurring of lines for transactions between where they take place, the channel being used, and the timing of transactions," says Teresa Connors, director of market engagement for international banking at RBS.

Meanwhile, the report notes that payment firms are applying transaction data toward the enhancement of payments with marketing, loyalty, and related services, with the goal of driving digital wallet adoption and engaging customers before checkout. MasterCard, for example, is working on a service in which consumers use quick response codes for in-store product ordering and payment, and then have that item shipped to their homes. "The 'omni-channel' payments experience nicely sums up how consumers are engaging payments and shopping differently, and how they're using different venues," Connors says.

The report projects that non-cash payments worldwide will rise from 307 billion transactions in 2012 to 333 billion in 2013, while mobile payments and e-payments will increase by 58.5 percent and 18 percent, respectively. Still, RBS and Capgemini say figures on mobile payments are vague due to rapid growth of mobile payments in new regions and the trend toward nonbanks becoming bigger players in the electronic and mobile payments market. Capgemini's Deborah Baxley predicts that legacy payment systems will endure for a long while. "For example, checks in the U.S. declined 7 percent, but checks are still expected to be around for another generation," Baxley says, noting that remote deposit capture, which allows items to be read by using a smartphone's camera, is prolonging the life of paper checks.

From "Payments Channels Are Blending Together: Report"
PaymentsSource (10/21/13) Adams, John

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Mobile Devices Used for Fraction of Bill Payments

Payments facilitated by mobile devices account for just $36 billion of the $2.1 trillion in annual bill payments, equating to approximately 5 percent of U.S. consumers, according to a new Javelin Strategy & Research report. The study found that bill payment via the biller's website remains the most popular payment method, with 37 percent of more than 5,600 surveyed consumers choosing this option, followed by 31 percent sending a check in the mail, 25 percent using the bill-pay service from their primary financial institution, 22 percent visiting the biller's location, 10 percent using their secondary financial institution's bill pay service, 8 percent paying by phone, 4 percent using a third-party bill pay service, and 2 percent selecting another method.

Meanwhile, the survey found that 39 percent of respondents managed financial tasks on smartphones this year, versus 22 percent last year. Javelin says boosting smartphone bill payments by consumers entails ensuring that they understand their payments will be properly recorded and documented. That could mean assuaging worries over the security of mobile bill payment, which is the leading reason consumers do not pay bills through mobile device. Javelin says early-adopting consumers currently use mobile bill pay, accounting for 26.4 percent of the 140 million U.S. consumers Javelin calls critical early targets for mobile bill pay.

The seven most common bills are mortgages, utilities, credit cards, vehicle loans, mobile phone, student loans, and store-branded credit cards. "A wide range of companies have much to gain if they can stand out among mobile bill-payment providers. That starts with FIs that want to be the centerpiece of customer payments and jolt flat-lining growth in online bill payment, and billers that are seeking more efficient ways to collect payments and maintain direct contact with customers," says Javelin's Mark Schwanhausser. "But it also extends to bill-payment innovators such as Bill.com, Check, Doxo, Manilla, Simplee, Volly, and Zumbox that are seeking to gain a foothold in a huge market ripe for disruption, as well as companies serving the underbanked, mobile wallet providers, and technology vendors."

From "Only $36 Billion of $2.1 Trillion Bill-Payment Market Paid via Mobile Devices"
Digital Transactions (10/31/13) Woodward, Kevin

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Current Payments News

U.S. Companies Continue to Make B2B Payments by Check

Checks remain the dominant method of business-to-business (B2B) payment for companies in the United States, according to a new Association for Financial Professionals (AFP) survey. However, overall use of paper checks is dropping, and mobile payments are gaining more interest among corporate users, according to the survey of more than 450 financial professionals. Adoption of wire and ACH payments is slowing because paper checks now can be converted directly into images or ACH debits. "The typical organization makes half its B2B payments by check, down from 81 percent in 2004," notes AFP president Jim Kaitz. Respondents cited several reasons for reluctance to adopt electronic payments, with 82 percent saying it is a challenge to persuade customers to pay electronically, 74 percent citing problems convincing suppliers to accept e-payments, 71 percent lacking adequate IT resources, and 70 percent having no standard format for remittance information. "This year's survey affirms the multitude of barriers that practitioners face when attempting to adopt new electronic payment trends," says J.P. Morgan's Diane Quinn. "Practitioners who overcome these challenges and break through the status quo of limited electronic payment adoption are well positioned to achieve renewed growth, improved fraud control, and efficiency gains."

From "U.S. Companies Continue to Make B2B Payments by Check - AFP Survey"
Digital Journal (11/13/13)

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Managing Cash Flow and Working Capital Top CFO Priorities

Financial executives are increasingly concerned about cash flow and working capital management, as the need to improve the precision, speed, and flexibility of their handling of economic volatility rises, according to Protiviti's 2014 Finance Priorities Report, based on a survey of over 220 finance professionals. "Organizations are facing tremendous change and new cost pressures, and they struggle to know whether or not they are prepared to adjust and manage sufficiently the impact of various upcoming changes," says Protiviti's Jim Pajakowski. Respondents continue to emphasize streamlining the financial close, and are looking to increase efficiency in cash forecasting, working capital management, account reconciliation, financial consolidation processes, and the period-end close. "Given so much uncertainty, organizations are seeking to manage and understand as clearly as possible all aspects of their cash flows," says Protiviti's Ryan Senter. "Bridging the gaps in knowledge by strengthening relationships with banks is another approach that many finance departments are re-emphasizing." Other top priorities include profitability analysis and reporting as well as performance management and business intelligence.

From "Cash Flow and Business Intelligence Top Priorities for Business Leaders"
CPA Practice Advisor (10/28/13)

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Merchants Face Challenging Deadline for EMV Adoption

Critics are taking issue with the card networks' October 2015 deadline for the U.S. transition to EMV-chip card technology, although by some estimates, merchants who start now to make the necessary upgrades and certifications might be ready with a year to spare. Merchants, issuers, and equipment makers who wait too long will find themselves waiting in a long line at the EMV testing labs, which could add several months to the process. The EMV Migration Forum's Mansour Karimzedah says terminal manufacturers must send their products to a lab for testing before a merchant can acquire a new EMV-enabled terminal. Karimzedah also points out that each terminal is differentiated, and since merchants want them enabled to accept all card brands, the amount of testing required can be formidable. It may take six to eight months for merchants to understand all aspects of EMV integration and a year to plan for it with vendors and purchase orders, before the upgrade process can commence, Karimzedah says. In addition, the payments industry is awaiting the Federal Reserve Board's response to a court ruling that challenges its interpretation of the Durbin amendment, which directs the routing of debit cards. To maximize the simplicity and efficiency of EMV migration for all U.S. stakeholders, Visa reports that it has devised an array of chip deployment recommendations to minimize the cost and complexity of implementation and simplify the card testing and certification process.

From "How Fast Can a Merchant Realistically Deploy EMV?"
PaymentsSource (11/01/13) Heun, David

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PCI Council Issues New Credit Card Security Standards

The Payment Card Industry (PCI) Security Standards Council has issued version 3.0 of the PCI Data Security Standard and Payment Application Data Security Standard, which will take effect on Jan. 1. The data security standards will govern the use of credit cards by merchants and the processing of credit card payments. Businesses will be given until the end of next year to comply with the standards. Changes made in the new version of the standards include an increased focus on clarifying the intent and spirit of the requirements, highlighting the shared responsibility of all involved in the processing of credit card data, and more clearly spelling out this shared responsibility in the legal agreements between service providers and merchants. The standards also call for increased validation testing. Verizon's Rodolphe Simonetti says those using simple PCI systems will not find the increased testing too challenging, but those with more complex systems will face extra costs and work in putting the enhanced protocols in place. He expects that more merchants and vendors will turn over management of the transition protocol to third-party companies as the PCI standard becomes more mature.

From "New Credit Card Security Standards Issued"
Wall Street Journal (11/07/13) Dipietro, Ben

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Competition Intensifies in P2P Payments Market

The largest banks are competing with Google and other major rivals for a slice of the $900 billion person-to-person payments market. ClearXchange CEO Mike Kennedy says mobile technology is making it more practical to replace checks and cash with digital payments. Kennedy points out that today, P2P participants only have to register with their bank or clearXchange once, and then the money transfers can be made by knowing a person's email address or cellphone number. Google and Square Cash operate on the same principle: Square Cash works from any email address, while Google's system is linked to its Gmail interface or its Google Wallet app. "We've enabled anyone to accept a payment simply by entering their debit card number and it's deposited directly into their bank account," says Square's Katie Baynes. However, despite optimism from many players, they have offered few details about the extent of P2P adoption. Celent analyst Zil Bareisis says it is hard to say if consumer adoption is responsible for the proliferation of P2P services, noting the P2P market is split between services tied to bank accounts and services tied to digital wallets. He says bank accounts have the advantage of not requiring pre-funding, since the money is already in the account.

From "Action Gets Heavy in the P2P Market"
ISO & Agent Weekly (10/31/13) Vol. 9, No. 40, P. 1 Heun, David

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PCI Compliance Lags in Retail Sector

Many retail industry players have yet to implement basic security requirements of the PCI Data Security Standard, according to a Ponemon Institute survey. The latest version of PCI DSS will mandate business' deployment and execution of penetration testing, as well as clarify different secure authentication and session management methods so businesses can better shield themselves against various forms of cyberattack. However, just 41 percent of retail firms use penetration testing to identify security risks, and only 34 percent quantify the reduction in access and authentication violations to evaluate risk management efforts. Moreover, just 44 percent of the retail sector has fully or partially deployed file integrity monitoring. The need to comply with PCI DSS is compounded by the retail sector's status as the leading target for cybercriminals. Nevertheless, Tripwire's Michael Thelander points out that most respondents in a broader poll of all enterprises said their organization is significantly or very significantly committed to risk-based security management. The two primary business drivers for risk-based security management programs across all U.S. and U.K. enterprises are the safeguarding of intellectual property and the minimization of non-compliance with PCI DSS, although Ponemon cites sluggish deployment of these programs. About half of the respondents lack a risk-based security management program, or have not implemented most of the program's operations.

From "PCI Compliance Lags in Retail Sector"
Infosecurity (USA) (11/04/13)

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