

Passing on Credit Card Fees

Written by Steve Marr
Friday, 28 February 2020 00:35

When a business accepts credit cards, there is a cost to the business. Most pay around 3%; although some charges may be higher or lower depending on volume and other factors. At the end of the month we see these processing costs and may think about how to pass these costs directly to our customers. One way or the other we do, either by absorbing them into a slightly higher price or charging extra for credit card use.

The question this brings up is should we add the charges to consumer cost? An article in the local newspaper caught my eye when an upscale restaurant started adding 3% to customer bills when paid by credit card. My initial thinking was that this was not a particularly good idea. The gross margin in most restaurants is 60%. If you lose a few customers over the 3% charge you're probably way behind.

Gas stations at times have two prices: one for cash and one for credit. I tend to avoid these because the cash price is close to what I pay using my credit card someplace else. I prefer to manage my expenses through a credit card while at the same time gaining cash back. When I thought I would save \$.05 or \$0.10 a gallon, I might just go in and put \$20 or \$40 down and take the savings.

Where I see the difficulty is when the customer is charged in a situation that is not expected. I've seen a few cases where restaurants prominently display a sign that says: Cash only; No credit cards. Then, the patron understands the rules. Today, most customers expect to pay the same price by cash or credit card.

Several studies have shown that customers will spend more when paying with a credit card than with cash. It means that when an establishment sells a high margin item like a dinner or a piece of furniture, customers find it offensive when the business adds an extra charge. Even when you go to Costco you may be restricted to which credit card you may use, but you don't pay extra.

Exceptions include situations where a business operates on a very tight margin and they simply can't extend credit. Instead, the business offers cash terms and adds an additional 3% for credit cards as a convenience fee. For example, I am involved in a damage restoration business. We generally do not take credit cards and add a 3% convenience fee when used. However, if we show up at 11 o'clock at night in response to a flood and the customer doesn't have cash in

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their account to write a thousand-dollar deductible check, we will accept the credit card payment for the deductible. However, if the customer has additional charges due in the future; we ask for a check, cash or add a 3% convenience fee for the use of a credit card. We communicate this charge upfront.

King Solomon wrote, "A just balance and scales are the Lord's; all the weights in the bag are his work." (Proverbs 16:11, ESV). I've heard some point to this Scripture as a justification for not charging an additional fee for a credit card transaction. My perspective is that when the credit card surcharge is clearly communicated in advance to customers, there is no deceit.

Good decisions will always keep customer coming back. Make sure you make them about credit card use.