

THE IMPACT OF CREDIT CARD FEES ON RESTAURANTS: NAVIGATING THE FINANCIAL LANDSCAPE



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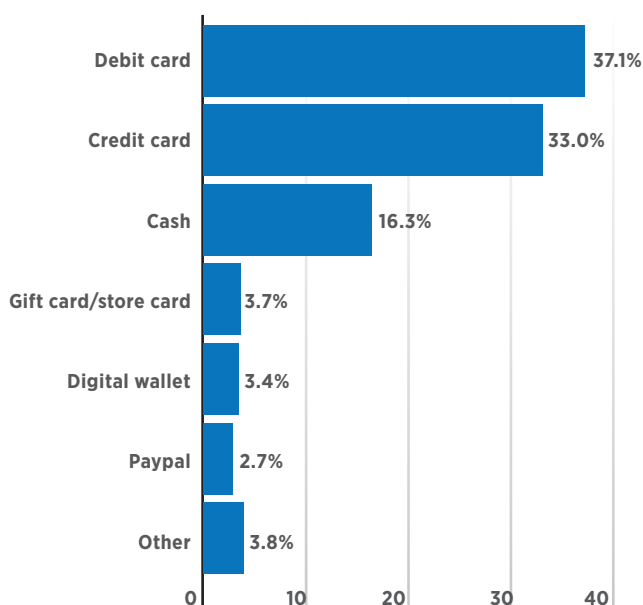


Restaurant

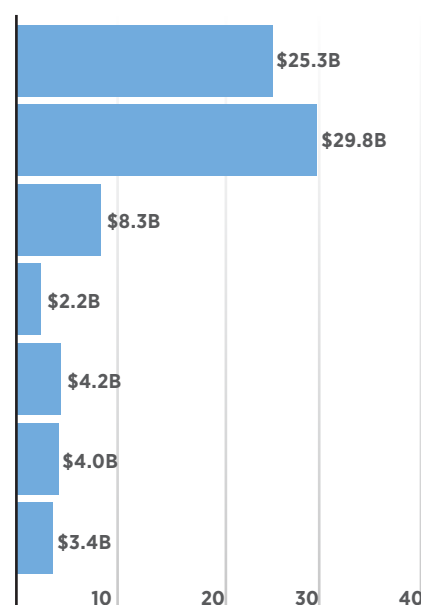
Credit cards are a hugely popular payment method in restaurants in the US. According to March 2022 PYMNTS data, 33% of consumers used credit cards for restaurant visits, more than twice the number paying cash. As an example of monthly consumer expenditure, credit card transactions accounted for US\$ 29.8 billion in sales in February 2022, highlighting that accepting credit card payments is clearly important for restaurant owners.¹

US consumers' usage of select payment methods to purchase food at restaurants

1a: Share of payment methods consumers used in their most recent food purchases at restaurants



1b: Estimated total February expenditure of food items, by payment method



N varies: Consumers who have made select purchases at least one time in the past 30 days
Groceries: N=3,113; Restaurant: N=2,454; Retail: N=2,167; Travel: N=565

Usage of payment methods to purchase food at restaurants in the US during February 2022.²

However, as credit card swipe fees increase, and the lack of competition and innovation in the credit card processing system becomes more prominent, restaurant businesses may struggle to manage their cash flow. According to a recent article from the National Restaurant Association, credit card processing fees are ranked as the third-highest cost of doing business, behind only the cost of food and labor.³

At a time when restaurant businesses are working hard to recover from the pandemic, the swipe or transaction fees may cause concern for long-term stability and growth. As cashless transactions have become the norm in the US,⁴ understanding and managing these fees is crucial for restaurant owners and operators.

¹ Consumers Use Credit Cards for Fine Dining, Debit for QSR, PYMNTS Data Suggest. PYMNTS (21 March 2023).

² Consumers Use Credit Cards for Fine Dining, Debit for QSR, PYMNTS Data Suggest. PYMNTS (21 March 2023).

³ Will Congress swipe right to curb excessive card transaction fees? National Restaurant Association, (9 June 2022).

⁴ Faverio Michelle. More Americans are joining the 'cashless' economy. Pew Research Centre, (5 October 2022).

Credit card payment landscape: understanding the challenges

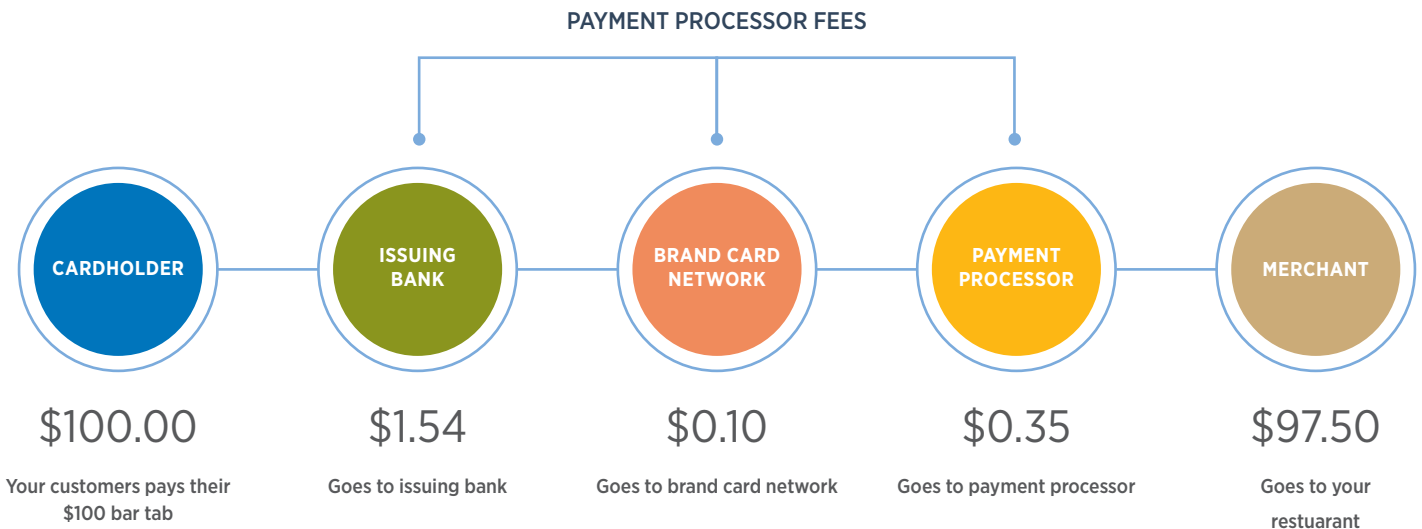
Credit cards have several deep-rooted advantages. Gathering valuable insights into consumers' preferences, adapting businesses to a cashless economy, protecting businesses from fraudulent transactions, and faster payments help companies improve cash flow. However, the surge in credit card transactions and swipe fees also comes with significant challenges⁵ for restaurant business owners nationwide.

UNDERSTANDING CREDIT CARD FEES

1. What is a credit card fee?

Credit card fees are charges that businesses need to pay when they accept credit card payments.

- » **Interchange fees:** Interchange fees are one of the largest components of credit card fees; they go to the bank that has issued the credit card. The interchange fee varies by the type of card used (e.g. rewards card, corporate card) and the nature of the transaction (e.g. in-person, online).
- » **Assessment fees:** Card networks charge the assessment fee, typically a tiny percentage of the transaction value, contributing to the overall cost of accepting credit cards.
- » **Payment gateway fees:** The payment processor or gateway provider charges a fee for facilitating the transaction between the business and the cardholder's bank. This fee covers the cost of securely transmitting the payment.



Breakdown of credit card fee processing in US in 2023.⁶

⁵ Yeung-Au-Angel. Visa, Mastercard Prepare to Raise Credit-Card Fees. The Wall Street Journal, (30 August 2023).

⁶ D. Korry. Credit Card Processing Fees: How to Read Your Restaurant's Monthly Statement. TouchBistro.

What is behind the surge in transaction fees?

From enabling watertight security measures and fraud prevention measures to offering enticing reward programs and managing operational expenses, credit card companies can adjust the transaction fee for several reasons.

However, in recent times, the lack of competition in the US credit card market and the monopoly of bigger players⁷ have resulted in higher fees, fewer options, and a lack of innovations in the sector. According to a report by CNBC on February 9, 2023, dominant players in the credit card industry collectively hold an 80% market share in the US.⁸ The Merchant's Payments Coalition has called on Congress to ensure competition in the US credit card market.⁹

According to the National Restaurant Association, transaction fees cost restaurant owners US\$ 77.5 billion in 2021.¹⁰

Furthermore, the credit card market leaders in the US are preparing to raise their fees, which could compel merchants to pay an extra US\$ 502 million annually, according to the Wall Street Journal.¹¹

IMPACT OF INCREASED CREDIT CARD FEES ON RESTAURANTS

Rising credit card fees, increasingly thin profit margins, and general inflation make it challenging for many franchises to stay in business. The surge in credit card fees significantly impacts their financial health and other essential business operations.

• Increased operating cost

The surge in credit card fees will add to the overall operating costs of a restaurant business. Small, independent restaurants might need to seek out more resources and capital to adjust to the new credit card fees.

• Reduced profit margins

The higher the credit card fees, the more it affects the restaurant's bottom line. With the surge in fees, restaurants will need to manage and scrutinize their operating costs to maintain profitability.

• Balancing the price

Many small businesses are passing on the fees to consumers by adjusting prices on the menu. However, it is a tricky balancing act. Increasing costs too much may deter customers. On the flip side, not adjusting prices enough may erode profit margins for the restaurant business.

• Discarding essential services

In managing their cash flow, restaurant business owners are struggling to continue their other essential services like employee health insurance.

HOW CAN RESTAURANT BUSINESSES MITIGATE THE IMPACT OF RISING CREDIT CARD FEES?

Against the backdrop of an increase in credit card fees coupled with the surge in food and labor costs, restaurant businesses are looking for innovative ways to survive and grow. And they need to find better alternatives than simply passing on the interchange fees directly to the consumer.

• Negotiating with payment processors

As restaurant business owners are deprived of multiple credit card processing options, they could look to negotiate with payment processors and acquirers to secure more favorable fee structures.

• Opting for alternative payment methods

Restaurant owners can also explore mobile payment apps or digital wallets to enable lower transaction fees compared to traditional credit card payments.

• Embracing technology

Implementing more advanced payment processing technology can help restaurant business owners mitigate the impact of credit card fees. For instance, utilizing point-of-sale (POS) systems that offer competitive rates and integrated payment solutions can streamline operations and minimize fees.

⁷ Proud Liam, Karen Kwok. [Visa-Mastercard payments duopoly has staying power](#). Reuters, (8 December 2021).

⁸ Partsinevelos Kristina, Cait Freda. [How small businesses are fighting inflated credit card swipe fees](#). (9 February 2023).

⁹ [Merchants Testify Before Congress That Lack of Competition Has Led to Soaring Credit Card Swipe Fees](#). Merchants Payments Coalition. (4 May 2022).

¹⁰ [Will Congress swipe right to curb excessive card transaction fees?](#) National Restaurant Association. (9 June 2022).

¹¹ Yeung-Au-Angel. [Visa, Mastercard Prepare to Raise Credit-Card Fees](#). The Wall Street Journal. (30 August 2023).

- **Encouraging cash payments**

While cashless transactions are rising, encouraging cash payments can help reduce the burden of increasing credit card fees.

Restaurant businesses could offer incentives, such as discounts or loyalty programs, to encourage customers to pay with cash and lower overall swipe fees.

- **Educating customers**

Educating customers about the impact of swipe fees on restaurant businesses can encourage them to consider cash payments or alternative payment options.

- **Monitoring and analyzing credit card fees**

In these testing times, restaurant businesses need to monitor their credit card fees and closely examine their overall business cost. Regularly reviewing credit card processing statements allows business owners to identify discrepancies or unnecessary expenses and proactively manage credit card fees.

THE CREDIT CARD COMPETITION ACT: A SILVER LINING?

- **What is the Credit Card Competition Act?**

The Credit Card Competition Act (CCCA), S. 1838/H.R. 3881¹², aims to increase competition in the credit card processing market and reduce the high swipe fees and transaction fees that small businesses face, including restaurants. This legislation would require the largest banks to offer at least two credit card processing networks when issuing a new card—one from the existing duopoly and one from an independent network. If passed, the CCCA expects lower swipe fees, enhanced credit card security and service, and the provision of more options for US businesses.

- **Potential impact of the CCCA**

- » More innovation and competition

The CCCA will foster more innovation in the market. The debit card market witnessed innovation and more business-friendly services with the introduction of routing competition. Because networks

had to compete, they all invested in, and offered customers greater security technologies, such as end-to-end encryption technology.

- » Better services

Currently, merchants lack back-up options in their credit card systems. Routing competition would provide a back-up network, allowing consumers to continue to use their credit cards even if one network goes down.

- » Financial impact

Competition should mean lower costs for businesses and consumers, allowing companies to invest in their workforce and improve their establishments.

UNDERSTANDING THE FUTURE LANDSCAPE

When the debit card market in the US opened to network routing competition, businesses, and consumers enjoyed more flexibility and freedom. There is optimism that the CCCA may do likewise for the credit card sector. Restaurant owners would expect the changes arising to lower swipe fees, strengthen credit card security and service, and foster competition in the marketplace, which is currently absent from the duopoly-dominated credit card system. While restaurant owners can't control credit card fees, they can adapt to the risk landscape through negotiation, and by embracing technology and remaining vigilant about their expenses.

¹² Mildred Dasha, Courtney Johnston. [The Credit Card Competition Act Is Back on the Table. Here's What to Know.](#) (Jul. 22 2023).



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