

MONEY TALKS CHARGE AHEAD?

JUST BECAUSE YOU'RE ALLOWED TO DO SOMETHING DOESN'T MEAN YOU NECESSARILY SHOULD. SO BEFORE YOU START PASSING ON CREDIT CARD CHARGES TO YOUR CUSTOMERS, **BRUCE MONTGOMERY** SUGGESTS YOU CONSIDER WHAT'S BEST FOR YOUR BUSINESS.

On October 5, 2009 the Commerce Commission announced that it had reached agreement with a number of financial institutions, settling claims by the Commission that these institutions had breached the Commerce Act by "agreeing and implementing the Visa and MasterCard credit card scheme rules".

The two main outcomes from this settlement were:

1. the introduction of competition between credit card issuers in setting their credit card transaction fees, and
2. the ability for retailers to pass these charges on to their customers.

Up to this point retailers had to factor these charges into their overall costs when setting their selling price. It is hoped that by introducing competition the transaction fees will reduce and the savings will be passed on to the end consumers through reduced retail prices.

The big dilemma for retailers is whether or not to start passing the fees on to their customers and, if so, how to go about it. In theory, if a retailer does decide to add a surcharge for credit card transactions, they should

actually redo their costings and drop their prices accordingly. Recent media reports suggest some service stations have begun charging up to 90c for credit card transactions while car parks have a 50c surcharge.

Anyone considering adding a surcharge needs to consider the following:

- Will I lose sales by adding a surcharge?
- Will the surcharge cover these lost earnings?
- What are my competitors doing?
- Can not adding a surcharge be used as a marketing tool?

Retailers may actually find that it is better to focus on a positive rather than a negative and, rather than increasing the costs for credit card

payment, look at offering a discount for paying by cash.

If a retailer does decide to add a surcharge, then obviously it needs to be done properly. The main thing for the retailer to consider is that they are complying with the Fair Trading Act.

There are two issues the Commerce Commission will be looking at with businesses that add a surcharge. Under the Fair Trading Act, a retailer must adequately disclose all fees to consumers so they can make an informed choice on whether or not to purchase an item and the method of payment.

Also, the Commission warns that if a retailer adds a surcharge and discloses this to customers as a means of covering costs, then this is all it should do. Any retailer who uses the surcharge as a means of increasing revenue will be seen as misleading the customer under the Fair Trading Act.

IF A RETAILER DOES DECIDE TO ADD A SURCHARGE FOR CREDIT CARD TRANSACTIONS, THEY SHOULD ACTUALLY REDO THEIR COSTINGS AND DROP THEIR PRICES ACCORDINGLY.

Our advice to anyone looking at adding a credit card surcharge, especially in the current economic climate, is to make sure they do their homework. Look at how much it is costing and whether it is worth the risk of losing customers to recover this cost. Check out the competitors and see what they are doing, because adding a surcharge when they aren't could damage your business. Make sure some thought is put into the marketing strategy that is going to accompany the policy.

Finally – and this is important with any changes made within a business – make sure all staff are fully informed. It is vitally important that every staff member is able to fully explain the reasons for any change should a customer query it. ●



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