

B2B ACCOUNTS RECEIVABLE QUARTERLY UPDATE

Volume 6, March 2022

Surcharge as a Strategy:
Examining the Rise and Rewards
of this 21st Century Payment Trend

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For those who have followed the rising cost of processing credit cards, you know that since March 2017 businesses have been able to deploy a compliant credit card surcharge solution to address this issue. Surcharging credit card payments allows the cost of processing the transaction to be passed along to the cardholder, thereby avoiding the costs associated with accepting credit cards that are normally paid by your company. Those fees are then split among processors, the Card Associations and of course, the card-issuing banks. Over time, these fees have gone up substantially. The largest increase in a decade was deployed in April 2021. An analysis of our portfolio shows that effective rates on B2B credit cards average 3%-3.5% and sometimes higher. The largest component of those costs is due to interchange and is beyond the control of the accepting merchant.

It is imperative to partner with a processor that is 100% compliant with Card Association rules and all state laws.

Five years into this new processing environment, it is time to better understand why using "Surcharge as a Strategy" may be right for your business. Let's begin with some background on surcharge. The path to legal and compliant surcharging can seem daunting. When the *Expression Hair Design v. Schneiderman* lawsuit was acted upon by the Supreme Court, it remanded the case back through the Circuit Court system. This step meant that surcharging could be a state-by-state possibility. Initially, surcharging was legal in 41 states. It has now expanded to 47 states. The three states where surcharge

remains illegal are Connecticut, Maine and Massachusetts. To help you easily understand the rules and regulations for surcharge, we commissioned this [legal whitepaper](#) on the subject. We also suggest that your company consult outside legal guidance. When considering "Surcharge as a Strategy," it is important to understand the B2B credit card landscape and how best to deploy it within your order-to-cash process. To optimize your savings, it is imperative to partner with a processor that is not only 100% compliant with the Card Associations' rules and all state laws, but in order to maximize savings, one that also offers multiple electronic payment choices aside from credit cards.

Card brands have established the following rules and regulations for businesses choosing to surcharge their clients' credit card payments:

- Surcharges may only be applied to credit card transactions and may not be assessed on pre-paid or debit cards.
- Surcharges must be assessed equally across all card brands (Visa, Mastercard, Discover and American Express).
- Surcharges may not exceed 4% of the total sales price.
- Surcharges must be disclosed at the point-of-sale or payment, and as a separate itemized charge on the credit card receipt.
- Businesses must register as well as provide a 30-day notice to the card brands prior to implementing surcharge.
- Surcharges may not result in a profit for the accepting merchant.

Now that you have an understanding of the Card Associations' expectations for surcharging, you must also layer in the individual state laws that govern surcharge. Our legal whitepaper provides a view of how each state can impose its own rules for legal surcharging. For example, Colorado legislated a process where businesses can only recapture a 2% margin while all other legal states can follow the guideline set by the Card Associations at 4%.

85% of CFOs report significant increases in card-enabled payments year-over-year since March of 2020.

In a recent survey of Enterprise and Midsize businesses, 85% of CFOs said their companies were making significantly more card-enabled payments than in March of 2020 according to PYMNTS.com. This is especially the case in environments where the move to digital payment channels was driven by necessities caused by the pandemic. The growth in card payments is in conjunction with the expansion of more states legalizing surcharging. More credit card transactions and volumes typically mean an increase in costs and lower margins. The last major impact to B2B credit

card-not-present (CNP) transactions by the major card brands was detailed in our December 2020 [B2B Accounts Receivable Quarterly Update](#). The card brands have now announced an interchange rate increase on some consumer card types effective in April 2022. Most B2B environments should not see an increase in processing costs due to these specific changes. If your processor does not provide notification of the increases by card type ahead of time, the changes can be found on the websites of the card brands themselves.

Companies that use "Surcharge as a Strategy" have been successful in reducing their processing costs, driving electronic payment adoption, and increasing their margins. In most order-to-cash environments, a vital component of success is the introduction of eCheck as a payment alternative to credit cards. eCheck rides the ACH rails and is a vast improvement over the legacy ACH system which still requires origination paperwork and related Treasury steps with a financial institution. eCheck payments are easy and convenient for your customers to use. They work just like traditional paper checks but without the risk, expense and hassle to your customers. An eCheck is, quite simply, the bank and account information which can be found on the bottom of your customer's paper business checks. When eChecks are put in place and effectively communicated as a payment option to your customers, payment migration from credit cards to eChecks ranges from 60-90%.

The result is average savings of 2.68% in recaptured margin, depending on the actual percentage of payments migrated and the surcharge rate applied to the customer who chooses to continue to pay with credit card.

eChecks offer up to 90% migration from credit cards and as much as 2.68% in recaptured margin.

In Fall of 2022, Canada, one of the USA's largest trading partners, will become the latest market to allow compliant surcharging. Canada's rules on surcharging will be uniform across the country unlike in the U.S. where rules and regulations differ by state. We will have more to share on compliant surcharging in Canada in the coming days.

The decision to move forward with a compliant "Surcharge as a Strategy" solution is an important one. It should be made on a case-by-case basis to determine its merits. Now more than ever, as the number and types of digital payments businesses accept continues to increase, "Surcharge as a Strategy" best positions a company to offset Card Associations' bi-annual rate increases.

So Why is Now the Time to Use Surcharge?

Costs of B2B credit card acceptance continues to increase for the following scenarios:

- Card-Not-Present (CNP) environments
- Level III interchange pricing has virtually been eliminated by the card brands.

Surcharge is a widely accepted business practice utilized across the country:

- 47 states now permit compliant surcharging, compared to just 41 states when the Supreme Court remanded the decision through the Circuit Courts in March 2017.
- Due to increased costs in all aspects of managing a business, i.e., labor, inventory, working capital, rising credit card acceptance costs, companies are now examining multiple methods to increase efficiencies and improve margins.

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About Unified Payments Group

Unified A/R simplifies accounts receivable and payment acceptance with best-in-class, modular solutions and ongoing consultation from B2B A/R experts to help you get paid faster at reduced cost while improving your customers' experience. Unified A/R's Executive Team brings more than 100 years of combined management success from the payment and ERP industries and has partnered with many of the nation's largest Trade and Professional Associations, Financial Institutions, and Technology Firms.

About the Authors



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Madeline oversees all activities and initiatives related to go-to-market strategies and implementations for Unified A/R's enterprise sales customers. The Enterprise Solutions Team is actively involved with each implementation from a seat of the client perspective to ensure a successful roll out of each project and initiative. Her strengths in strategic planning are evidenced by her success in launching one of the largest strategic Financial Institution partnerships.

John K. Perez, CEO

John sets strategic direction, aligning procedures and resources to help bring solutions for Unified A/R customers. Prior to joining Unified A/R, John had leadership roles with customers varying in size from Middle Market to Fortune 500 organizations with both Fifth Third Bank and BB&T, now Truist. John also opened Fifth Third Bank's European Representative Office in 1996.



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