

# The Wire...from AirPlus

## October 2009: Credit card dynamics

**AIRPLUS.** WHAT TRAVEL PAYMENT IS ALL ABOUT.



### Credit card merchant fees are a hot topic in the travel industry today.

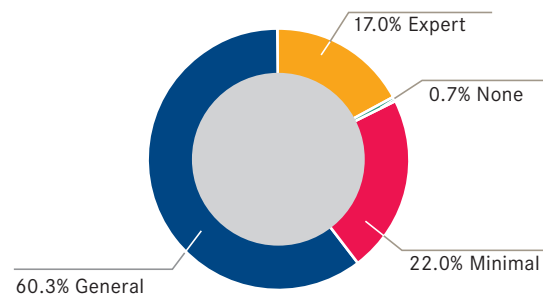
One example of many is when United Airlines communicated to 28 small agencies this summer what seemed to some as an experiment in changing the system. The airline informed these agencies that they would no longer be allowed to process credit card purchases through United's merchant account but would be required, instead, to use their own merchant accounts starting July 20. An interesting point is that UATP cards were excluded.

The agencies, with the backing of the American Society of Travel Agents filed a complaint with Congress and with pressure from lawmakers won a 60-day delay for implementing the change.

So what does such a move mean for a corporation's travel program—and why should travel managers be concerned?

A recent survey of 143 corporate travel professionals conducted for AirPlus International reveals that a good number of them may not know the answer to that question, and that industry education regarding the credit card economics is overdue. While less than 1 percent of respondents characterized their knowledge of credit card economics as none, 22 percent said it was minimal and 60 percent responded that their insights were simply general.

How would you rank your knowledge and understanding about the credit card economics of travel?



There were some areas where most respondents agreed, however, when asked about the differences among cards. There was a general acceptance that the cost paid by merchants to accept a credit card can vary significantly between cards and that the rate of acceptance of a card has an impact on usage. There was widespread understanding that some credit cards provide better data than others and that rebates could vary widely among credit card suppliers. While the value of better data and big rebates are obvious for corporations, the holistic dynamics of credit card pricing, merchant fees and end-user incentives may be less understood.

Currently in the United States, merchants are responsible for nearly all of the fees associated with credit card usage. When a traveler uses a credit card to purchase an airline ticket, for example, the supplier must pay a processing fee to a bank in order to charge

the card. These fees range from 1 percent to 3 percent based on the type of card. Therefore, the fee on a \$500 airline ticket would range from \$5 to \$15 depending upon the type of card.

For example, in the travel business, airlines currently shoulder the fees for credit card purchase even if it takes place through an agency. For smaller agencies especially, this could mean serious financial challenges, even to the point of pushing them towards going out of business. For these agencies to survive, they would need to pass the merchant fees on to the end user—and that means to the corporate travel budget.

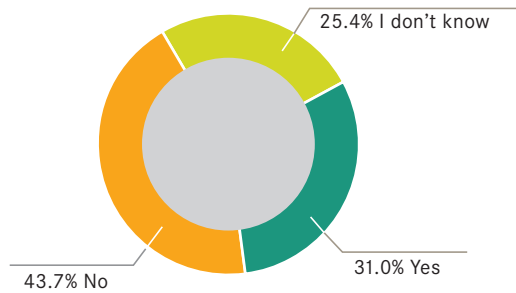
While United has chosen to test the waters, this issue is not focused on one airline and it could go far beyond 28 agencies struggling with merchant fees. If one airline succeeds in passing this buck, other airlines are likely to follow. As distribution fees trickle down it could have a significant effect on corporate travel costs—up to 3 percent of total air spend, depending upon the type of card the corporation uses to purchase air travel.

Many in the travel industry have lobbied for the airlines to retreat on this issue and return to the status quo. Others clamor for change, but the solutions are challenging and require total transparency of fees. There are several potential ideas on the table:

- > A “Fair-Split” approach—A solution for all benefiting parties (corporate, TMCs and airlines) to pay for their benefits equally.
- > Surcharging—TMCs could begin a flat rate surcharge to cover merchant fees. This approach, however, is currently illegal in several states in the US.
- > Direct payment—Direct debit payments which would sidestep processing fees would be ideal for agencies
- > Non acceptance by airlines – the united example learns that agencies and corporations will bear all cost of payment and airlines will lose control on consumer pricing

The answers are not clear, but one thing is certain: When the issues of distribution costs and merchant fees rear their heads, corporate travel professionals need to understand the dynamics of credit card economics and be ready to make decisions that are in their company’s best interest.

**Do you foresee changes to your card program due to the current economic climate and card environment?**



**Check all the following statements regarding corporate credit cards/payment to which you agree:**

All credit cards cost merchants (airlines, hotels, etc.) the same to accept	7.4%
Some cards are significantly more or less expensive than others	77.9%
All cards offer the same card level of data	5.1%
Some cards offer more or less data and reporting capabilities	81.6%
All cards are accepted at merchants around the world	5.1%
Some cards are accepted by more or less merchants and this has an impact on usage	76.5%
All cards offer the same potential for rebates and financial incentives	8.8%
Some cards pay more in rebates than others	80.1%

**Additional Resources:**

**Payment Alternatives Considered As United Moves To Shift Credit Card Fees To Agencies**

<http://www.procurement.travel/news.php?cid=merchant-payment-UAL.Sep-09.01>

**Companies Shift To Central Pay**

[http://www.btonline.com/businesstravelnews/search/article\\_display.jsp?vnu\\_content\\_id=1003971434](http://www.btonline.com/businesstravelnews/search/article_display.jsp?vnu_content_id=1003971434)

**Mining Support: AirPlus Lab Helps Corps Use Data**

<http://www.procurement.travel/news.php?cid=AirPlus-data-lab.Jun-09.30>

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