

'Cards Only' Merchants Break From Anti-Interchange Pack

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As the retail lobby intensifies its campaign against interchange fees, a handful of merchants are voluntarily paying even more of those fees by switching to "cards-only" policies.

Several large airlines have introduced "cashless cabins" in recent years, citing convenience, security and higher sales when people use plastic instead of cash to buy drinks, snacks or headphones during the flight. And though "cash-only" signs are much more common, a handful of restaurants continue to test "cards-only" policies - with mixed results - despite the increased interchange fees they must pay as a result.

"It's a cost of doing business," said Tony Zazula, a co-owner of the New York restaurant Commerce, which will stop accepting cash next month. "So little of our business is done in cash, it seems a burden on us to have two systems. It's the age of electronic transfers."

This argument screeches against the rhetoric of groups like the Merchants Payments Coalition, which have long lobbied for federal regulation of the transaction fees their members must pay every time they accept a credit card. This summer, 7-Eleven Inc. even started asking customers to sign a petition against "unfair" interchange fees as Congress considers several bills that would regulate them.

Airlines and other merchants with "cards-only" policies are "misguided," said Mallory Duncan, the president of the Merchants Payments Coalition.

"We believe they will live to regret that decision," he said. It "seems like a good deal when it first starts off, like in the quick-service restaurant arena. But they have begun to realize that the costs of accepting plastic are too great." (Duncan does not necessarily advocate "cash-only" policies either: "We've never argued that credit cards aren't a convenience," he said. "What we've argued is that they're way, way overpriced.")

He dismissed the suggestion that the decisions of airlines and restaurants to go cards-only would undermine the merchant campaign for regulated interchange fees.

But Duncan Douglass, a partner in the Alston & Bird LLP law firm who specializes in payments, said cards-only policies do help the payments industry's side in the interchange debate - to a point.

"It does lend some credence to the arguments by the payment networks and issuers that there is value to taking cards," he said. But "until there's a greater volume of merchants out there that have decided to go cashless or all card, I don't think it's a big counterweight to 7-Eleven and others." For certain merchants, like airlines, high-end restaurants that already receive most of their payments on plastic and even some quick-service

restaurants or coffee shops, "I could see that [cards-only policy] being a trend," Douglass said.

One New York coffee shop went so far as to offer a discount to customers paying with plastic, but it recently discontinued the policy.

Since at least December, Roasting Plant Inc. had offered a 5% discount to any customer paying by card. But on Wednesday, an employee who answered the phone said it had discontinued that policy at least a month ago.

Thomas Hartocollis, the company's co-owner, said: "We were hoping to motivate enough customers to use credit that it would simplify back-office procedures but found that not enough customers were willing to use credit cards to make the program viable."

Douglass said coffee shops might be one of the few types of merchant that can make a business case for offering discounts on plastic purchases - even when the discount is added to the average 2% fee merchants pay their processors or acquiring banks on each credit card transaction.

"I haven't been in a Starbucks in years when I haven't had to wait in line," he said. "I can see them saying, 'If I can serve X customers in an hour,' " a plastic discount or a cards-only policy might make sense.

Such a policy also can make sense for a high-end establishment like Commerce, the sort of place that charges \$23 for a plate of spaghetti and does less than 10% of its business in cash.

Switching to plastic means "it's one system. There's no security risk. There's no problem with money being stolen," said Zazula, a veteran restaurateur who was inspired to make the switch by a recent "cashless" flight on American Airlines. "There are intangible benefits, too, like all that time reconciling the dollar amounts" and making bank deposits every day. "It seems so burdensome versus just looking at a total on a credit card machine."

In June, American became the latest domestic carrier to stop taking cash on its flights. Representatives for it and other airlines with similar policies, including United, Southwest and JetBlue, said this week that in-flight sales had grown since they stopped accepting cash.

Still, interchange costs have brought some restaurants that went "cards-only" back into the cash fold. Snap Crepes in Washington received national media attention three years ago when it stopped accepting cash. But it was sold about a year ago, and the new owner decided the plastic-only policy was too expensive.

"I don't know really how much money [the former owner] lost with the credit card fees," said Snap's new owner, who would only give her first name, Karen. The owner said she

also switched processors and was now paying half as much in fees as her predecessor.
"We had to change companies because she was also being charged a lot."