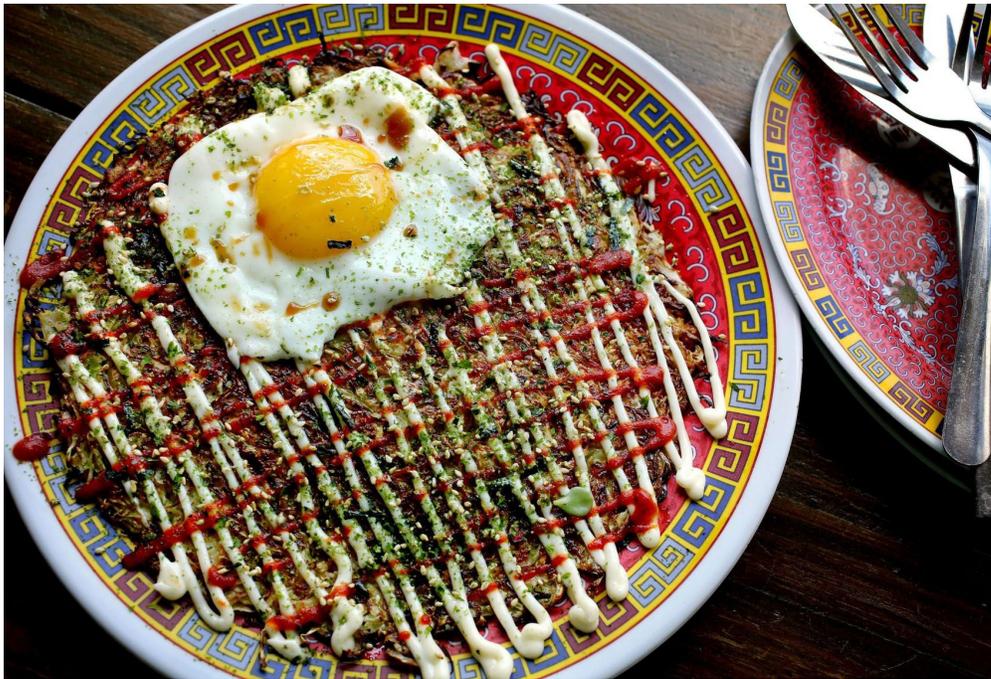


Could convenience fees become a restaurant industry standard?

By **Hanna Raskin** hraskin@postandcourier.com Feb 14, 2018 Updated 23 hrs ago



Okonomiyaki, a Japanese cabbage pancake, served with an egg at Xiao Bao Biscuit Monday June 27, 2016. Grace Beahm/Staff

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“Convenience fees” are exceedingly rare in restaurants, but those familiar with the credit card processing industry say technological innovations and changing personal finance habits could prompt restaurant owners to reconsider their fear of driving off customers with surcharges.

“Historically, most merchants were of the opinion that it was not good for business, because people feel like they’re getting gouged,” says David Robertson, publisher of The Nilson Report, which covers the payment industry. “Those businesses that are low-margin businesses would love to charge, but nobody wants to be the first merchant to do it.”

The first restaurants in the Charleston area to pass along their credit card processing costs were Tu and Xiao Bao Biscuit, which kicked up controversy by unlawfully folding the fee into sales tax.

After The Post and Courier last week reported on the practice, which also runs afoul of credit card companies’ rules, co-owner Josh Walker in a lengthy Instagram post attributed the convenience fee idea to his credit card processor, Linda Hancock of Dezba Payment Solutions. (The Friday afternoon post, which included an apology “that any action on our part could be perceived as not being upfront,” has since been deleted from Xiao Bao Biscuit’s feed.)

Hancock did not return messages seeking comment, so it’s not clear exactly what she advised her clients or why. But Robertson, who is not familiar with the specific situation, says endorsing convenience fees is one way that processors can try to win favor in an increasingly crowded field.

“They want to keep their merchant happy,” he says. “They don’t want their merchant to go somewhere else.”

Every business that accepts credit cards has to hire a credit card processor to carry out transactions. Until about 20 years ago, the processing role was played primarily by banks, but is now handled mostly by independent firms, which can be as small as one person.

In the Charleston metropolitan area, the number of payment processors surged between 2006 and 2012 from 16 to 57, according to the Bureau of Labor Statistics. (The count for three of the following four years “did not meet disclosure standards,” although the agency in 2014 reported a smaller tally of 25 processors.) That type of growth is in line with national statistics, which show the number of people employed by the credit card processing industry grew 28 percent between 2006 and 2016.

Although there has been very little written about the credit card processing sector, it’s possible people are drawn to the industry because there’s now more money to be made in it. The average annual pay for a processor in 2006 was \$56,334. By 2016, the national figure was \$88,344.

Credit card processors generally get a cut of every transaction, so they’ve benefited from Americans’ increased reliance on credit cards. A recent survey by processor TSYS found only 11 percent of consumers prefers to pay with cash.

“More of us are using cards, and 10 years after the Great Recession, more of us are feeling friskier about using credit cards,” Robertson says.

But what’s good for processors isn’t necessarily good for small businesses, such as restaurants, which have to shoulder the fees associated with credit cards, including the cost of their various reward programs.

As Walker wrote about the 2.5 percent convenience fee he adopted, “The increased use of credit cards decreases the money we make, and as small business owners, that makes a serious difference...these fees are only partly offsetting the cost of credit cards, which I want to clearly state does not mean that we are making money.”

Processors tend to like working with restaurants because they have extremely low rates of chargebacks, which is what happens when a cardholder disputes charges. When diners are unhappy, they’re more likely to complain to the restaurant manager than their bank. “If there’s a problem, you settle it before you pull out your credit card,” says Ramon DeGennaro, a banking and finance professor at the University of Tennessee.

Still, DeGennaro isn’t persuaded that credit card processors would promote convenience fees as a way of wooing business, since there is a danger of restaurant owners mishandling the surcharge. “These things really hurt reputations,” he says. Yet he believes restaurateurs may embrace them anyhow.

“Fees are on the rise, and merchants have to deal with it,” he says.

Ten states have outlawed convenience fees, but because that group includes some of the most populous states, Robertson says more than half of Americans live in places where convenience fees are not allowed. If other states pass similar legislation, he adds, restaurant convenience fees could well be doomed. Otherwise, though, he believes they will gain in popularity as more merchants switch to tablet-based checkout systems.

“The device provides the merchant with more than simply card processing,” he says. “It does inventory control, it does your loyalty program, and because it’s consumer-facing, you can also tell the consumer things on it.”

For example, a screen might cue a diner to approve a convenience fee – and perhaps reiterate the reasoning that Walker laid out in his Instagram post.

“The new system facilitates surcharges,” Robertson says. “And my suspicion is we’re going to see a lot more of them.”

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Food editor and chief critic

Eating all of the chicken livers just as fast as I can.

