



**Media Release**

## **Almost one half of Australian merchants set to surcharge**

(1 August 2005 – Australia) Almost half of Australia's Corporate, Commercial and SME merchants are planning to start surcharging on credit card transactions over the next six to 12 months, East & Partners has found.

East's latest six monthly Merchant Acquiring & Cards Markets report shows that 6.9 percent of Corporates; 4.2 percent of Commercial companies; and 2.8 percent of SMEs currently apply a surcharge to credit card sales transactions.

However, 46.7 percent of Corporates; 44.5 percent of Commercial companies; and 41.0 percent of SMEs are actively considering applying a surcharge following the Reserve Bank of Australia's re-regulation of interchange arrangements.

"The penny seems to have really dropped with merchants that they can transform what has historically been a cost centre for them into a potential revenue stream," East & Partners principal analyst Paul Dowling said.

"Of course, this could be the thin edge of the wedge if merchants start to surcharge with the aim of either covering their costs or squeezing some extra margin," he said.

East's report finds that of those businesses that do currently surcharge, Corporates on average apply a 1.2 percent surcharge; Commercial enterprises add on 1.4 percent; and SMEs apply a 1.6 percent surcharge.

"Widespread surcharging could have implications for American Express and Diners Club, which charge a higher transaction impost than the likes of Visa and MasterCard, and they could find themselves disadvantaged at the point of sale relative to their rivals," Mr Dowling said.

"A lot depends on how sensitive a typical Amex customer is to a few extra percentage points on the transaction. Given many of their customers are large corporates, it may not be an issue for them," he said.

"But for most businesses, their merchant card facilities are still the most expensive component of their receivables streams and many of them are reviewing their service arrangements with suppliers," Mr Dowling said.

"The amount of competitive pitching being experienced by merchants has grown significantly over the past six months, with National Australia Bank, ANZ and American Express being particularly active," he said.

The report shows the vast majority of merchants have experienced price decreases due to the RBA's scrapping of wholesale interchange fees but that there is still a level of confusion among smaller businesses.

More than one fifth of SMEs are "unsure" or "don't know" whether they received a price reduction as a result of the regulatory changes.

On the other hand, 93.4 percent of Corporates; 85.9 percent of Commercial companies; and 78.7 percent of SMEs all reported price decreases.

"It all makes for a very dynamic segment of the market and we'll be exploring some of the major themes currently emerging on the issuing side of the industry in our upcoming Cards 2007 report," Mr Dowling said.

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