

Credit Card Surcharges: Consumer Experience And Choice, a PYMNTS and Payroc collaboration, examines consumers' responses when merchants place surcharges on credit card purchases. We surveyed 2,879 U.S. credit card users from March 8 to March 29 to learn more about how they paid for purchases over the last year, their attitudes toward surcharges and whether these fees would lead them to choose alternative payment methods or take their business to another merchant.

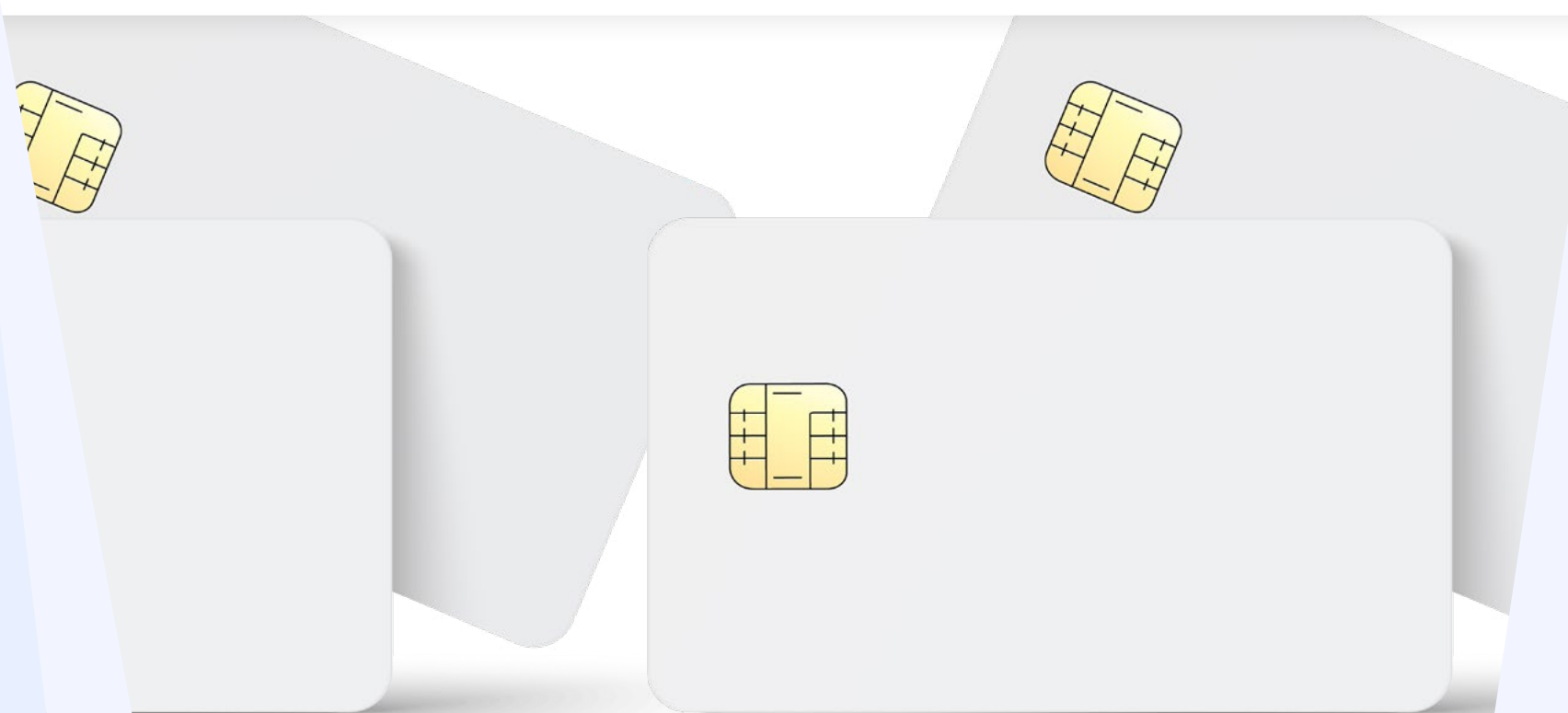
Credit Card Surcharges:

Consumer Experience
And Choice

PYMNTS.com



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Introduction

A little knowledge can go a long way. This might be sage advice to the growing number of merchants that are levying surcharges on credit card transactions to help cover card processing costs and boost income — a commonplace practice that is permissible by law in all but a handful of U.S. states. Though many consumers pay up, the practice can tarnish their opinions of merchants and drive some to switch to the competition. Communication about fees and education about other payment options can help allay consumers' frustration at having to pay surcharges.

PYMNTS' research finds that most consumers are aware when surcharges occur, and even consumers who use a diverse range of payment methods still pay surcharges when asked to. Just 11% of credit card users actually switched payment methods to avoid surcharges in their most recent transactions, and three-quarters of these consumers cite cash as the go-to

alternative. Meanwhile, two-thirds of consumers state that surcharges negatively impact their perception of merchants. Often left with few options but to pay, 44% of credit card users declare they are "very" or "extremely" likely to switch merchants when surcharges are applied.

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This is what we learned.

Payment diversification personas

To understand the impact of the availability of alternative payment options on consumers' behavior and attitudes about credit card surcharges, we grouped consumers into three categories based on the range of payment methods they have used in stores in the past year.

Slightly diversified consumers: Consumers who have used a narrow set of payment methods at the point of sale (POS) during the 12 months prior to being surveyed — 2.4 on average. Their payment methods are most likely to be cash, debit cards and credit cards. They constituted 64% of consumers surveyed.

Somewhat diversified consumers: These consumers are more likely to include nontraditional alternatives at the POS, mainly PayPal and gift cards. Nearly all consumers in this subset have used a credit card to pay at the POS over the last year. They constituted 18% of consumers surveyed.

Very diversified consumers: These are consumers who have used multiple nontraditional methods to shop in stores over the last year. They are highly likely to have used digital wallets and PayPal, and they are also frequent users of gift cards and buy now, pay later (BNPL). They constituted 18% of consumers surveyed.

1. U.S. consumers tend to use fewer than four payment alternatives when paying in stores and restaurants. Credit card users, younger customers and high-income consumers tend to be more diversified in their use of payment methods.

Though the average U.S. consumer has utilized fewer than four different payment methods over the past year, we find that credit card users, younger consumers and high-income consumers are more likely to use a greater variety. Some classic methods are still popular: Two-thirds of consumers have used cash or a debit card to pay in stores over the past year, while 59% have used a credit card. The usage of alternative methods, such as PayPal, Venmo or digital wallets, is notable but trails at 41% and 25% respectively. Twenty-eight percent have used a prepaid card or gift card, while 18% have used a store card. We find that 22% of high-income consumers are very diversified consumers, as are 30% of millennials and bridge millennials.

2. Credit card usage is highest among somewhat diversified consumers, yet decreases among consumers who use a wider array of payment methods. Very diversified consumers are likely to prefer debit cards at the point of sale.

While 97% of somewhat diversified consumers have used a credit card to make a purchase in the past year, only 72% of very diversified consumers have done so. This indicates that credit card usage lessens among consumers who use a wider array of payment methods. Our data also finds that credit cards are the top choice for 42% of slightly diversified consumers and 35% of somewhat diversified consumers, but only 21% of very diversified consumers say credit cards are their first choice. Very diversified consumers are instead likely to prefer debit cards at the POS.

3. A wide gap persists between what consumers say would do and their actual behavior when faced with a credit card surcharge, regardless of how diversified they are. Nine out of 10 credit card users say they are reluctant to pay surcharges but end up paying them anyway.

Even though only 12% of credit card users overall say that they would pay a surcharge if asked, 88% end up actually paying them, and only 11% say they would switch payment methods if asked to pay a surcharge. Cash is the go-to alternative when switching payments to avoid surcharges, as it was used by 77% of respondents who switched.

4. Close to half of credit card users would switch merchants to avoid surcharges, indicating that a lack of payment choice both prevents consumers from avoiding surcharges and incentivizes churn. Consequently, merchants should not underestimate the importance of communication to ease customer discomfort with surcharges.

Consumers are sensitive to undisclosed fees: roughly two out of three cardholders say they check their receipts for additional charges. In fact, 44% of credit card users declared they would be “very” or “extremely” likely to switch merchants when surcharges are applied. This threat may be real: The fact that consumers do not access a wide array of payment alternatives to avoid surcharges indicates churn is a feasible alternative for dissatisfied consumers. High rates of awareness and compliance with surcharges, however, signal that consumers may be less resistant when merchants communicate properly.

How U.S. consumers pay

While U.S. consumers can choose from a variety of payment alternatives when purchasing goods and services, PYMNTS' research finds that the average U.S. consumer has used fewer than four payment methods in retail stores and restaurants over the past year. While 67% of consumers used cash and 66% used debit to pay in-store in the year prior to the survey, 59% used credit cards. Usage of alternative methods, such as PayPal or Venmo or digital wallets, is sizable but less common at 41% and 25%, respectively. Twenty-eight percent used a prepaid or gift card and 18% used a store card.

Using statistical analysis, we separated consumers into three groups based on the range of payment methods they used in-store in the year prior to being surveyed. Sixty-four percent of U.S. consumers can be considered slightly diversified consumers, and they rely on around two payment alternatives to credit cards, such as cash or debit cards, to make purchases in stores and at restaurants. Less than 20% of all consumers can be considered either somewhat diversified consumers or very diversified consumers — those who have used multiple nontraditional methods

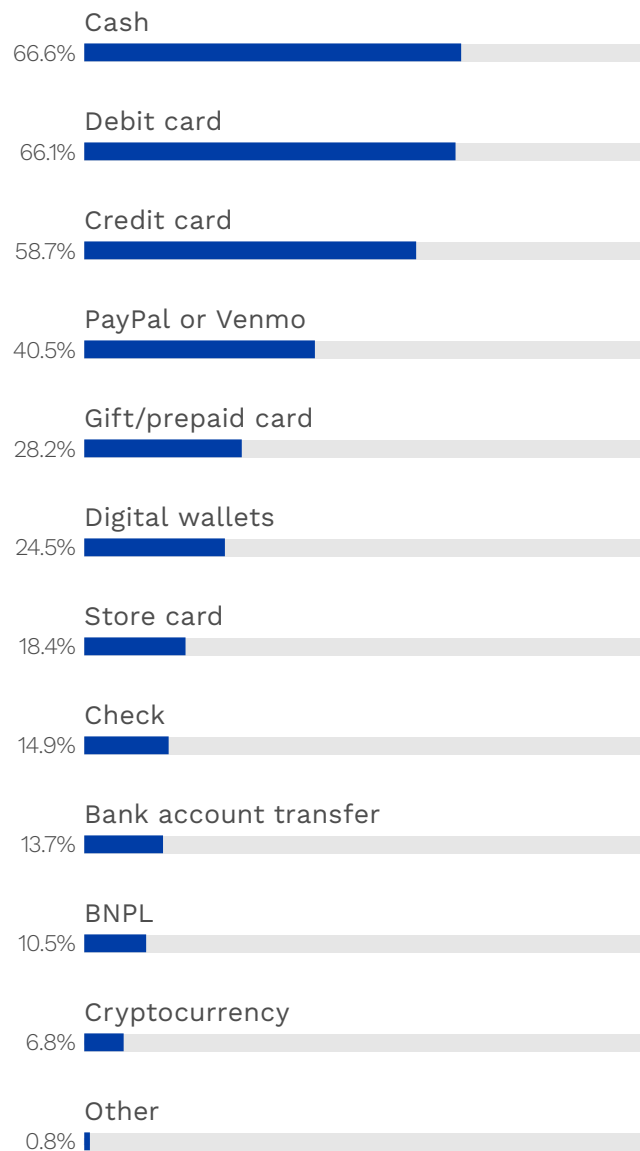
to shop in stores during the year prior to the survey. While the somewhat diversified consumers used five payment methods during that year on average, very diversified consumers used around seven.

Our data also finds that 48% of credit card users belong to the slightly diversified consumer group. Twenty-three percent of credit card users belong to the very diversified consumer group, exceeding the 18% among all U.S. consumers.

Unsurprisingly, younger consumers and those with higher incomes are associated with greater payment diversification. While 22% of high-income consumers are very diversified, the corresponding share for low-income consumers is only 13%. We also find that millennials and bridge millennials are the most diversified consumers regarding payment methods, as more than 30% of both demographics is very diversified. Generation Z consumers are not far behind: 23% fall into the high payment-diversification group, while the share of baby boomers and seniors in this group is only 6%.

FIGURE 1A:
How U.S. consumers pay at retail stores or restaurants

Share of payment methods consumers used at retail stores or restaurants

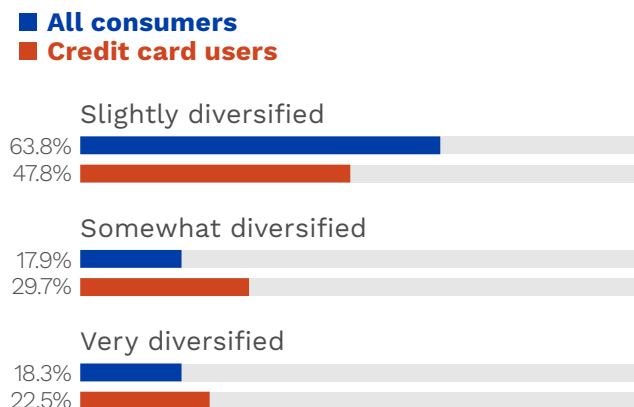


N = 5,167: Whole sample

Source: PYMNTS.com | Payroc
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FIGURE 1B:
How U.S. consumers pay at retail stores or restaurants

Share of consumers with declared levels of payment diversification

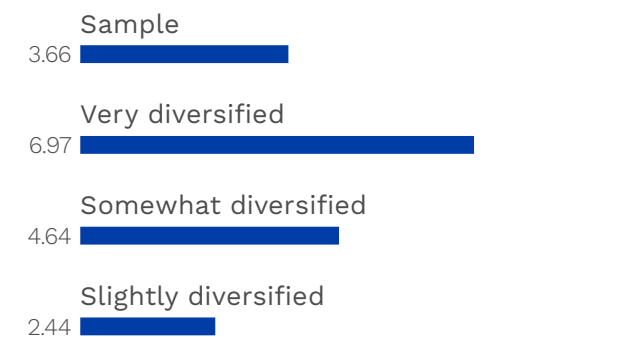


N = 5,167: Whole sample

Source: PYMNTS.com | Payroc
Credit Card Surcharges: Consumer Experience And Choice

FIGURE 1C:
How U.S. consumers pay at retail stores or restaurants

Average number of payment methods used in the 30 days prior to being surveyed



N = 5,167: Whole sample

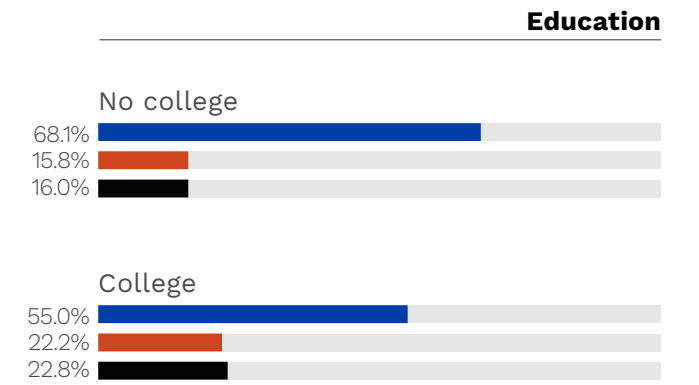
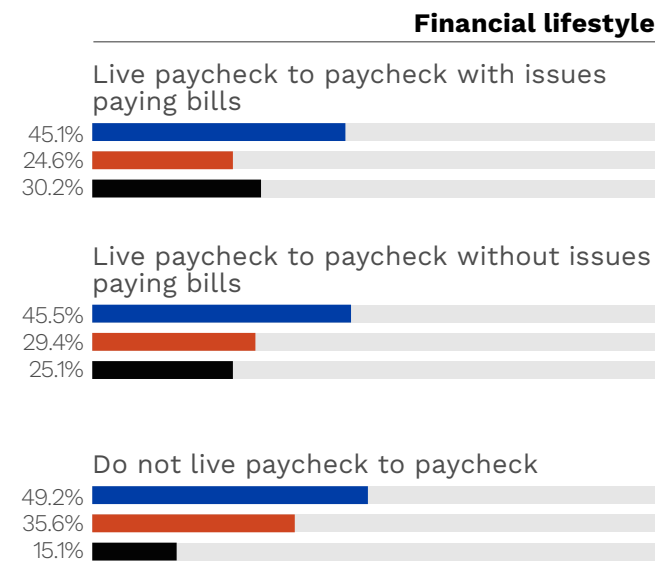
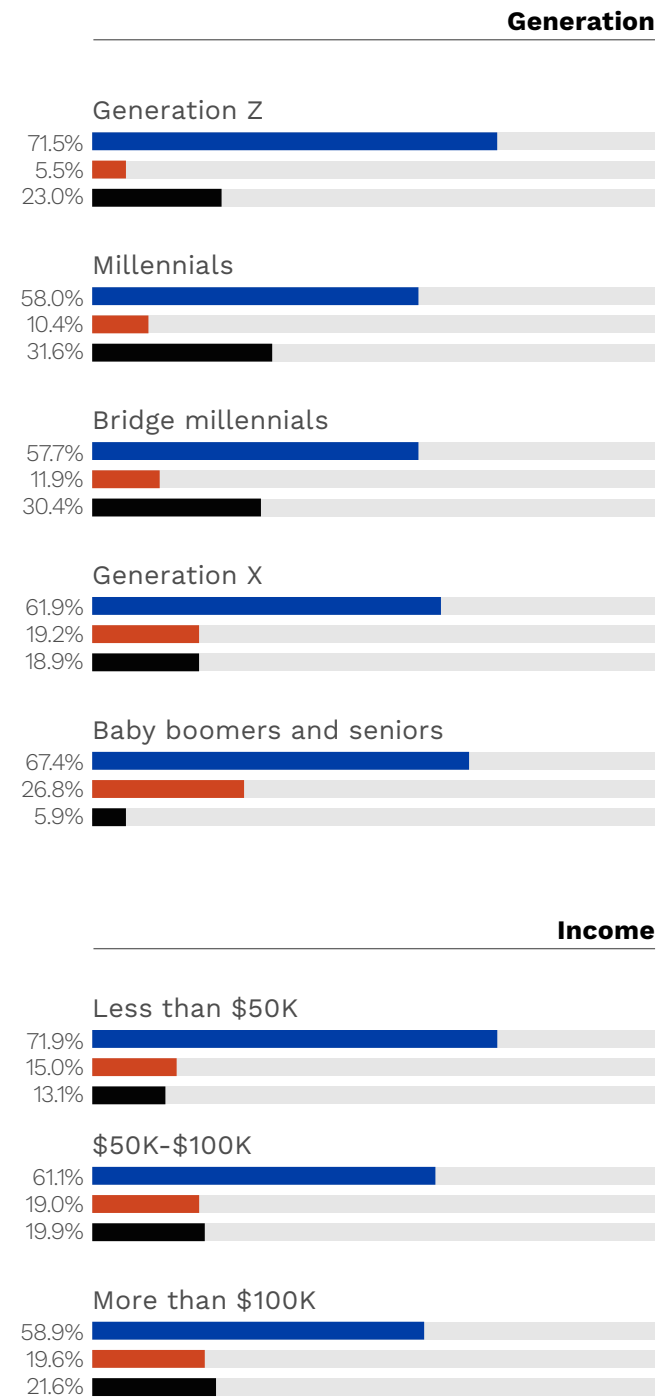
Source: PYMNTS.com | Payroc
Credit Card Surcharges: Consumer Experience And Choice

Unsurprisingly, younger consumers and those with higher incomes are associated with greater payment diversification.

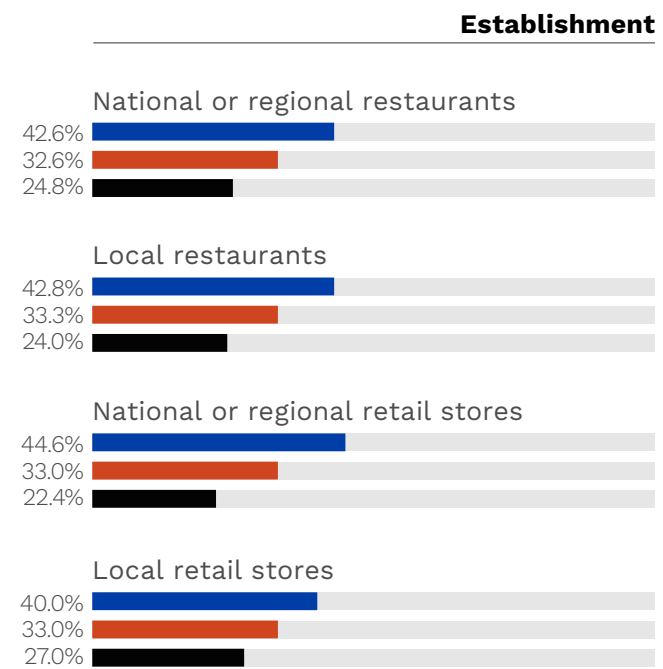
FIGURE 2:
Levels of payment diversification among U.S. consumers

Share of consumers with declared levels of payment diversification, by demographic, financial lifestyle and establishment patronized

- Slightly diversified
- Somewhat diversified
- Very diversified



N = 5,167: Whole sample
Source: PYMNTS.com | Payroc
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Cash is king, but so are credit and debit cards

Although somewhat and very diversified consumers typically use a wider selection of payment methods, credit card usage is high among each group. Ninety-seven percent of somewhat diversified consumers report having used a credit card to make a purchase at retail stores and restaurants, and 72% of very diversified consumers did so as well. At 96%, somewhat diversified consumers are most likely to have used cash, whereas very diversified consumers are most likely to have used debit cards at 83%. Slightly diversified consumers mostly use debit cards and cash, at 61% and 55%, respectively. Only 44% of slightly diversified consumers used a credit card in the past year.

Very diversified consumers lead the pack in using newer payment options, as this group is the most likely to use PayPal or Venmo (94%) and digital wallets (70%). More than

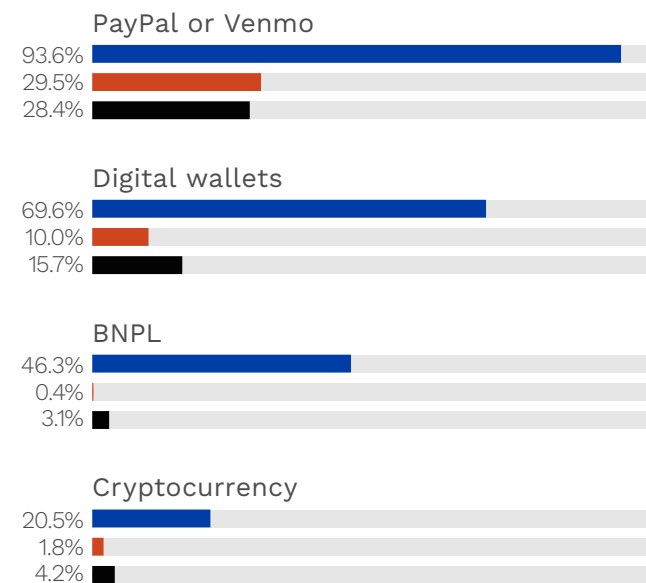
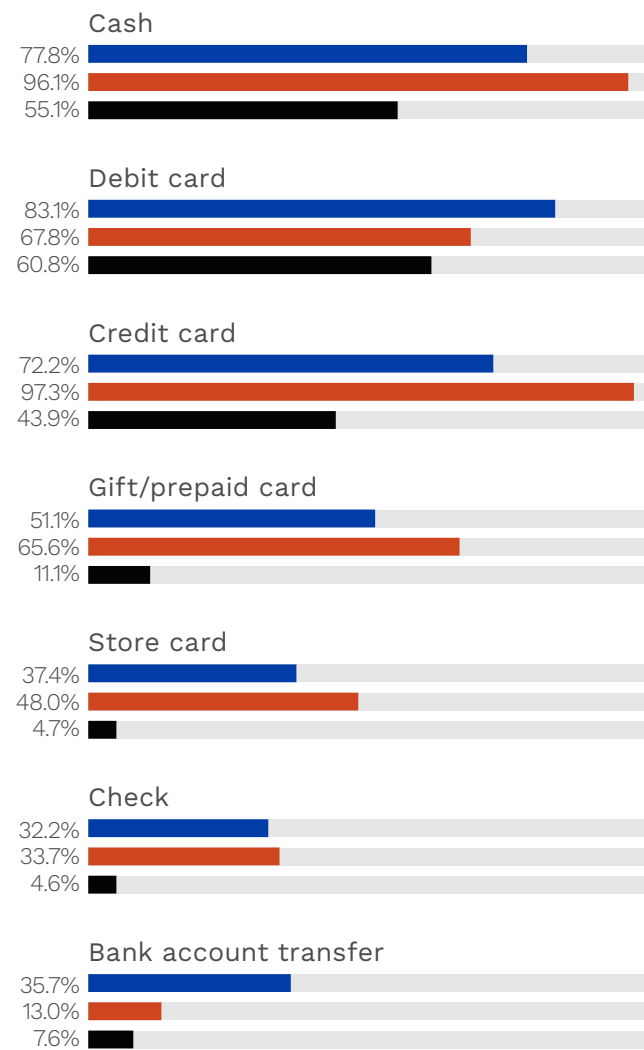
one-quarter of somewhat and slightly diversified consumers have used PayPal or Venmo to make a purchase, and digital wallets account for just 10% and 16% usage among somewhat diversified and slightly diversified consumers, respectively.

Our data also shows that credit card usage decreases for consumers who use a wider array of payment methods at the POS. Merchant acceptance seems to play a role in payment method choice as well. Preferences for credit cards are lowest among very diversified consumers, at 21%, and the highest when consumers shop at national or regional stores, at 38%. Meanwhile, credit cards are the top choice for 42% of slightly diversified and 35% of somewhat diversified consumers. Very diversified consumers are the most likely group to prefer debit cards at the point of sale at 47%.

FIGURE 3:
How U.S. consumers pay at retail stores or restaurants

Share of payment methods used at retail stores or restaurants, by persona

- Very diversified
- Somewhat diversified
- Slightly diversified



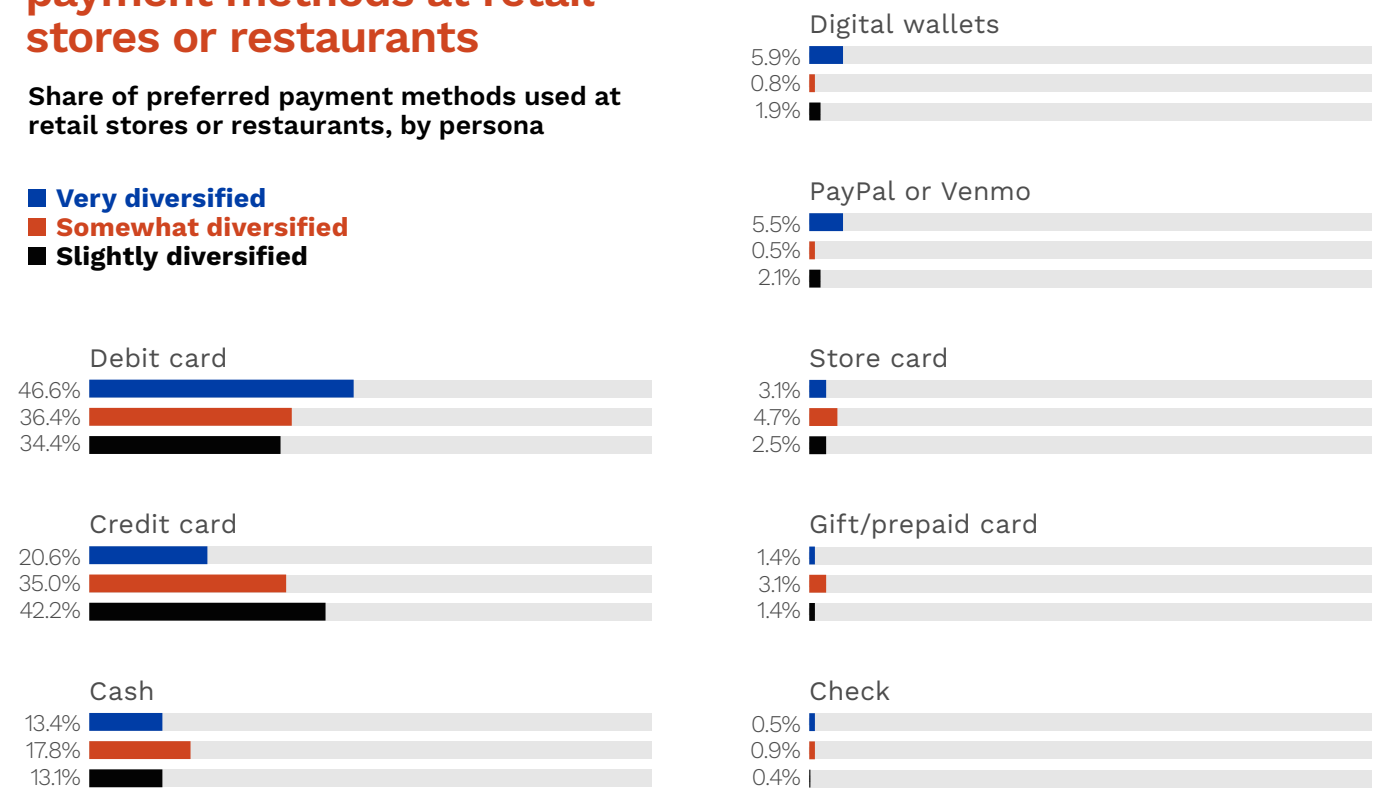
N = 5,167: Whole sample
Source: PYMNTS.com | Payroc
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FIGURE 4:
Consumers' preferred payment methods at retail stores or restaurants

Share of preferred payment methods used at retail stores or restaurants, by persona

- Very diversified
- Somewhat diversified
- Slightly diversified



N = 2,879: Complete responses
Source: PYMNTS.com | Payroc
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Consumer reactions to paying surcharges

PYMNTS' research finds that awareness about surcharges is high among consumers, with very diversified consumers most likely to know about them. Our data shows that 94% of very diversified consumers are aware that merchants add surcharges. The share of slightly diversified and somewhat diversified consumers who are aware that merchants add surcharges is also very high, at 87% and 89%, respectively.

Nearly one out of four of slightly diversified and somewhat diversified consumers have never been asked to pay a surcharge. In contrast, only 12% of very diversified consumers say that they have never been asked. Very diversified consumers are the most likely to have knowingly paid surcharges, at 48%, notably exceeding the 36% shares of slightly diversified and somewhat diversified consumers. Very diversified consumers are also the most likely to have paid surcharges and realized only after payment,

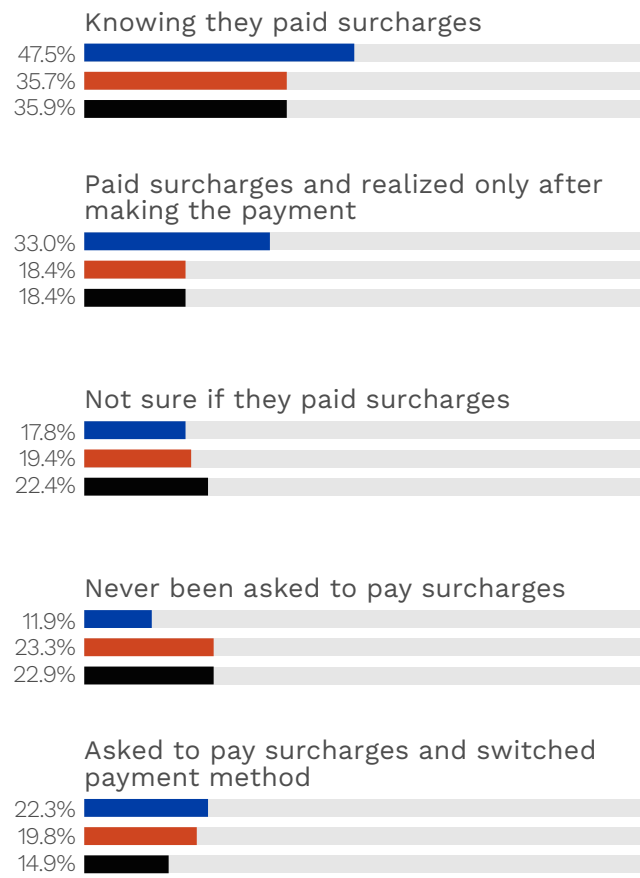
at 33%, and they lead all groups in having been asked to pay a surcharge and then switched payment methods, at 22%.

Regardless of the extent of payment diversification, a split exists between consumers' declared and actual behavior when faced with a credit card surcharge. While only 12% of credit card users say that they would pay a fee if asked, 88% of consumers end up paying. This share is higher among the very diversified at 90%. Somewhat diversified cardholders are the most reluctant to pay, but even so, fee acceptance is still 84%, and we find that 89% of cardholders say they are unlikely to switch payment methods once asked to pay a surcharge. Among those who do switch, cash is the go-to alternative, used by 77% of respondents switching payments to avoid surcharges.

FIGURE 5:
Consumers' experiences with surcharges on credit card purchases

Share of consumers who experienced select situations when paying surcharges, by persona

- Very diversified
- Somewhat diversified
- Slightly diversified

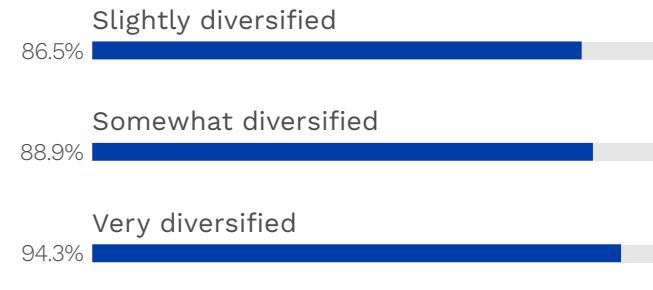


N = 5,167: Whole sample

Source: PYMNTS.com | Payroc
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FIGURE 6:
Consumers' surcharge awareness

Share of consumers who are aware of paying surcharges, by persona

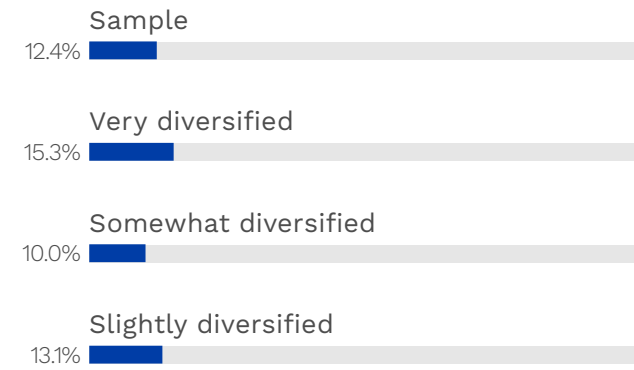


N = 5,167: Whole sample

Source: PYMNTS.com | Payroc
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FIGURE 7A:
How consumers address surcharges on credit card purchases

Share of credit card users who declared that they would pay a surcharge

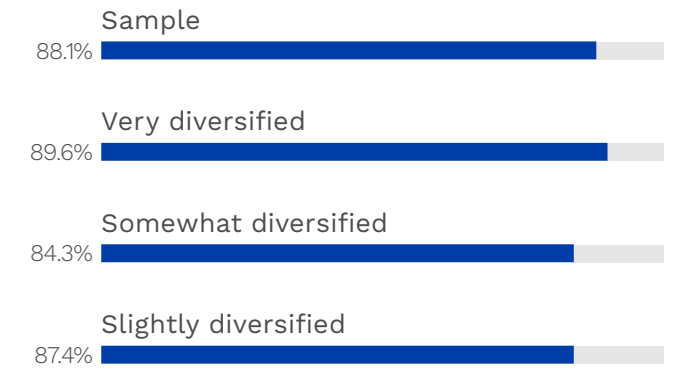


N = 435: Respondents who were asked to pay a fee on their last purchase prior to the survey

Source: PYMNTS.com | Payroc
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FIGURE 7B:
How consumers address surcharges on credit card purchases

Share of credit card users who actually paid a surcharge



N = 435: Respondents who were asked to pay a fee on their last purchase prior to the survey

Source: PYMNTS.com | Payroc
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Communication matters

Two out of every three cardholders say they check their receipts for additional charges, suggesting that consumers are sensitive to paying undisclosed fees. PYMNTS' research finds that 67% of credit card holders state that surcharges negatively impact their perceptions of merchants.

Our data also reveals a correlation between consumer payment diversification and their negative perception of merchants who levy a surcharge on credit card purchases. At 60%, credit card holders who are very diversified are the least likely to say that surcharges negatively impact their perceptions of merchants, while somewhat diversified and slightly diversified consumers are more likely to say so at 73% and 66%, respectively.

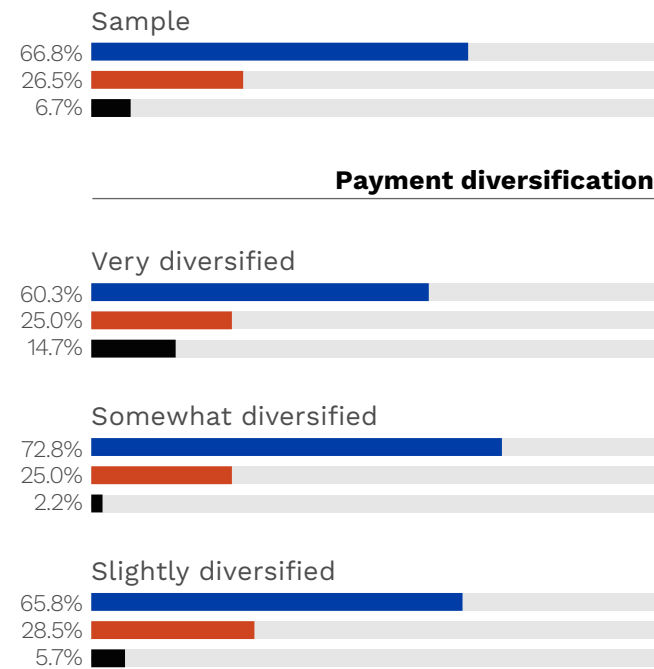
We find that 44% of credit card users say they would be "very" or "extremely" likely to switch merchants when surcharges are applied, with somewhat and slightly diversified consumers, at 44% each, slightly more likely to switch providers than those who are very diversified, at 42%.

The fact that these somewhat and slightly diversified consumers have less access to a wider array of payment alternatives to avoid surcharges indicates that churn is a feasible alternative to dissatisfied consumers. Meanwhile, high awareness and compliance with surcharges could indicate that consumers are unlikely to complain if the need to pay a credit card surcharge is communicated properly. Merchants should not underestimate the importance of communication to ease customer discomfort.

FIGURE 8A:
Cardholders' satisfaction and likelihood of switching merchants if asked to pay a surcharge

Share of impact on cardholder satisfaction when asked to pay a surcharge, by persona

- Negative or strong negative impact
- Neither a positive nor negative impact
- Positive or strong positive impact



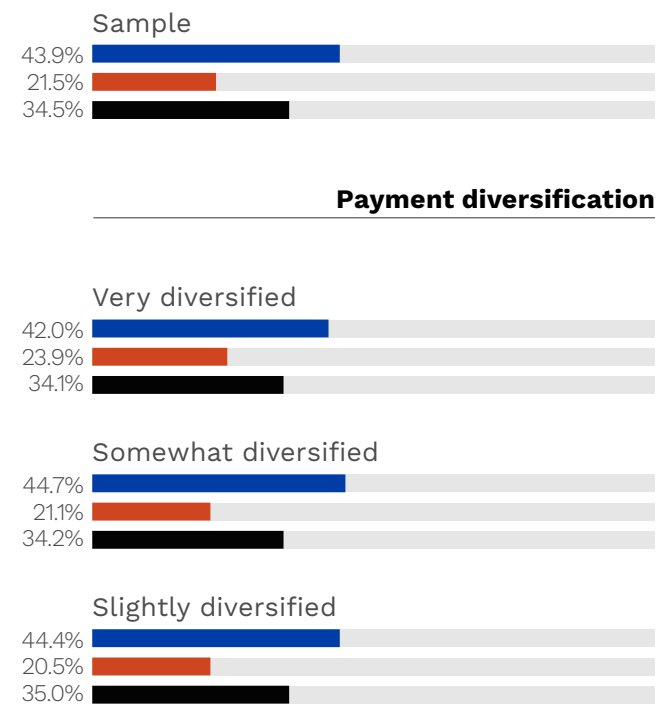
N = 2,879: Complete responses

Source: PYMNTS.com | Payroc
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FIGURE 8B:
Cardholders' satisfaction and likelihood of switching merchants if asked to pay a surcharge

Share of cardholders likely to switching merchants because of surcharges, whether or not they were asked, by persona

- Very or extremely likely
- Somewhat likely
- Slightly or not at all likely



N = 2,879: Complete responses

Source: PYMNTS.com | Payroc
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High awareness and compliance with surcharges could indicate that consumers are unlikely to complain if the need to pay a credit card surcharge is communicated properly.

Conclusion & Methodology

Many merchants levy credit card surcharges to offset processing costs on card transactions, and most consumers pay these fees. In spite of a high level of surcharge awareness, only a handful will switch payment methods in practice. Two-thirds of consumers state that surcharges negatively impact their perceptions of merchants, however, and close to half say they will switch to a merchant that does not levy a credit card surcharge. Merchants will need to weigh carefully the real risk of alienating customers against the additional income that surcharges make possible. Consumers have choices in payment methods and where they shop and eat, and merchants would be well advised to communicate effectively with their customer bases to maintain goodwill and consumer loyalty.

METHODOLOGY

Credit Card Surcharges: Consumer Experience And Choice, a PYMNTS and Payroc collaboration, examines consumers' response when merchants place surcharges on credit card purchases based on how many payment methods they have used in-store or at a restaurant.

We surveyed 2,879 U.S. credit card users from March 8 to March 29 on what payment methods they have used in the past year, the impact of surcharges on their credit card transactions and if the extra fees led them to use another form of payment or to take their business to another store or restaurant. The resulting sample was weighted to be representative of the U.S. adult population in key demographic variables.

About

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PYMNTS.com is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way companies in payments share relevant information about the initiatives that make news and shape the future of this dynamic sector. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovations at the cutting edge of this new world.



Payroc drives commerce for businesses with any time, anywhere payment solutions. We serve our clients with integrity as trusted advisors and recognized experts in payments. We provide transparent pricing clarity and prioritize developing personal relationships while delivering exceptional integrated payment technology.

Payroc is a privately held, full-service payment processor founded in 2003, servicing more than 130,000 clients and processing more than \$38 billion in annual card volume. Our senior management team has over 200 years of payment experience combined. To meet its merchants’ diverse and specialized processing requirements, Payroc leverages the processing networks of four of the largest card processing platforms in the U.S.: First Data, Vantiv, TSYS and Paymentech. Payroc is headquartered in the Chicagoland area.

We are interested in your feedback on this report. If you have questions, comments or would like to subscribe to this report, please email us at feedback@pymnts.com.

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