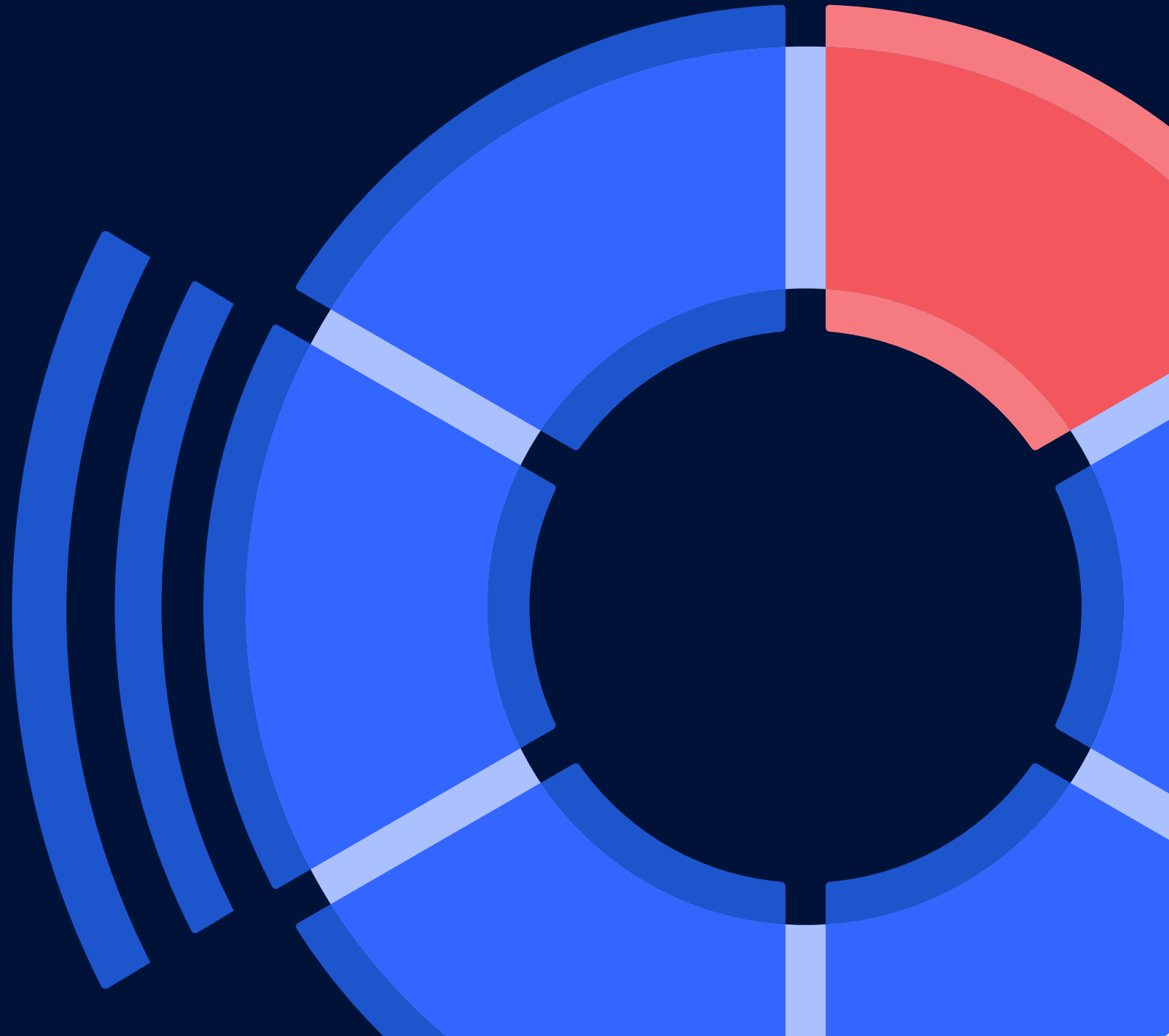


Payment Trends, Challenges & Solutions:

The Smart Guide to Hotel Payment Processing



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So you want to learn about hotel payment processing.

Are you considering moving from a manual system to an automated payment solution? Or switching your payment processing provider? Or adding a payments solution to your PMS?

Whatever the reason, you recognize that payments are the lifeblood of your business. Without revenue, you can't maintain your property, pay employees, or install that commercial wine dispenser you've always wanted next to your desk.

And yet, every year lodging businesses lose thousands of dollars due to mismanagement of payments. Are you one of them? Would you even know?

Demystifying payment processing for lodging operators

The topic of payment processing can be complex, confusing, and – let's be honest – a bit dull. But, it doesn't have to be. Here we explain the essentials in a way that's easy to digest and intended to help you streamline your current process.

Our topics include:

- Payment trends and what they mean for your business
- Answers to your questions about payment players, methods, and fees
- Common payment challenges and how to overcome them
- How to prevent and manage chargebacks and fraud
- How to choose the perfect payment solution for your property



By the end of this guide, you'll have the knowledge and confidence you need to take control of payment processing at your property and increase efficiency, revenue, cost savings, and guest satisfaction.





Five hotel payment trends you need to know.

When it comes to paying for goods and services, consumer behavior is changing rapidly. The world is going digital, and the travel industry is no exception.

While the pandemic has accelerated the pace, the transformation started well before the pandemic and will continue to evolve into the future.

Whether you operate a large or small hotel, a hostel, inn, or short-term rental, the same is true – if you're not keeping up, you're losing business to more savvy competitors.



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Let's look at five important payment trends:

1.

Online is the new offline

Online shopping is booming. Ecommerce sales in the U.S. [increased by 39.1% in the first quarter of 2021](#) over the same quarter in 2020, reaching a whopping \$215 billion. That's a lot of Amazon deliveries.

But it's not just retail, it's travel too, and this is a global trend. In 2020, 65% of worldwide sales in tourism and travel were made online, [according to Statistica](#). That number is expected to reach 72% by 2025.



2.

Cash is no longer king

After a long reign, cash payments have abdicated the throne, falling to 20.5% of point-of-sale transactions in 2020 and expected to fall to 12.7% by 2024, [according to Worldpay](#).

What's the new king (or queen)? Debit cards. And not far behind in the line to succession are credit cards. That's no surprise considering that debit and credit cards are widely accepted, quick and easy to use, and payments are automatic.



3.

Contactless payments aren't just a fad

Contactless payments like tap, scan, and mobile wallets have exploded in popularity in recent years. It's nothing personal, but people want to keep their distance these days.

A 2021 [Skift survey](#) found that 50% of travelers hope to see contactless payment options at hotels once they start traveling again.



Let's look at five important payment trends: (cont.)

4.

The new luxury? Convenience

Forget private jets and champagne baths, convenience is the new must-have amenity. A 2020 [survey from the National Retail Federation](#) found that 97% of shoppers have backed out of a purchase because it was inconvenient to them.

For hotel guests, convenience includes being able to easily pay online or in person with their preferred method of payment — and not having to wait while a front desk agent types in card details or counts cash.



5.

Fraud and chargebacks are on the rise

All these new payment methods aren't without challenges, and that includes an increase in hotel chargebacks and fraud.

Fortunately, advances in payment technology make it easier to prevent chargebacks and keep payment data more secure. More about that later in the guide.



How exactly does hotel credit card processing work?

5 key steps in the payment process

Let's look at a typical credit card transaction at checkout in a hotel.

1

The guest presents her credit card to pay for room charges.

2

The employee asks the guest to tap or swipe her card on the payment terminal.

3

The payment processor sends an electronic message to the customer's bank via the credit card network requesting authorization for the charge.

4

The bank sends back an authorization code (or so it should for payment security). The employee makes note of the code and issues a receipt.

5

Meanwhile, the guest's bank transfers the payment into the hotel's merchant account, which later deposits it into the hotel's bank account. Everyone is happy.

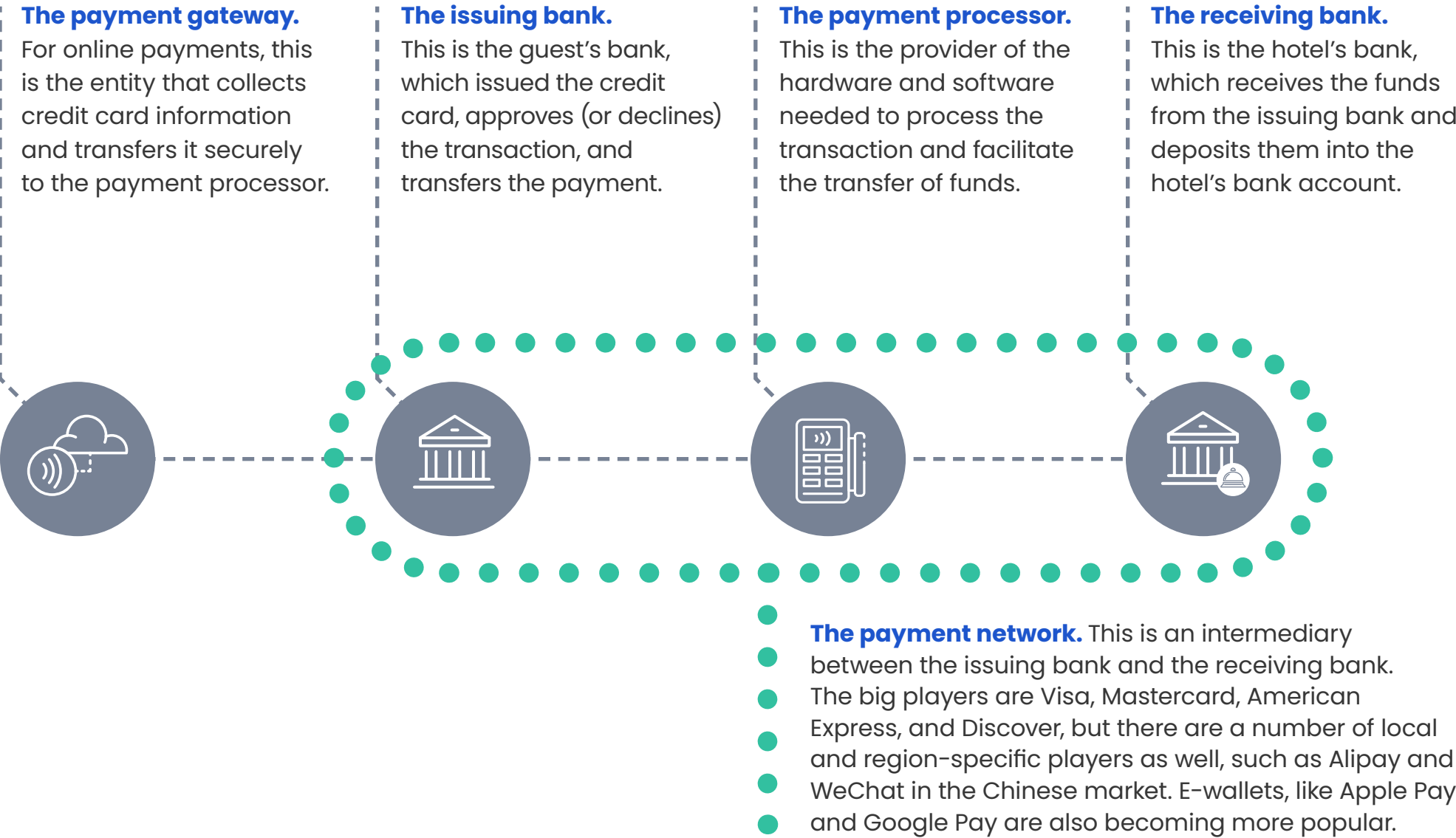


Easy, right? Well, unfortunately, things don't always go so smoothly. Later we'll discuss common payment problems and ways to overcome them. Right now, let's answer a few common questions about credit card processing.



Who are the key players in hotel payment processing?

Aside from the guest and the hotel (the merchant), several other parties are involved in a typical credit card transaction:



Companies like Stripe, Square, and PayPal can act as both a payment processor and a payment gateway. In the hotel industry, technology companies like Cloudbeds do so as well, helping hotels save costs and bypass the need for a merchant bank account.



What are the main payment methods?

As we've discussed, in the accommodation business the most popular payment methods are:



Debit card



Credit card



Cash



Mobile wallet



Virtual payment

What is a mobile wallet or e-wallet?

A mobile or digital wallet is an application like Apple Pay, Google Pay, or Samsung Pay that stores payment method information on a mobile device. Users can make contactless payments via mobile wallet by holding their mobile device over the payment terminal. By 2024, mobile wallets are expected to comprise one-third of POS transactions worldwide, [according to Worldpay](#).

What is a Virtual Credit Card?

A virtual credit card (VCC) is a temporary credit card number issued by a bank, allowing people and businesses to make online payments without revealing actual card details. OTAs like Booking.com and Expedia often use VCCs to send payments to hotels. VCCs are issued for a specific transaction for a specific dollar amount.



What is the difference between Point of Sale and Point of Interaction?

Point of sale, or POS, refers to the place where a payment transaction is processed, such as a cash register or computer terminal. Point of interaction, or POI, refers to a payment device that “interacts” with the cardholder’s card through a magnetic stripe, chip, or mobile app.

What is the difference between Magstripe and Smart Chip Cards?

Credit cards with a magnetic stripe on the back require the customer to sign the receipt to validate the transaction. These cards are more vulnerable to fraud because it is relatively easy to read and replicate the information and create duplicate cards. Because of this, card issuers have moved away from producing credit cards that only have a magstripe. A more secure technology is the EMV smart chip, which is much more difficult to replicate and in many instances requires the customer to enter a private PIN code.

What are the main payment transaction types?

There are three main types of payment transactions.

- 1. Card-present (CP) transactions** occur when the customer and their credit card are physically present at the business and pay by inserting their chip (and entering their PIN if required) to complete the transaction.
- 2. Card-not-present (CNP) transactions** occur when customers are not physically present at the business including online and MOTO (mail-order/telephone-order) payments. A MOTO transaction is when the customer provides card details and the employee enters them manually or uses stored information.
- 3. Contactless payments** occur when customers are present but do not physically interact with the payment terminal. The customer holds the card or smartphone (mobile wallet) over the reader, and the encrypted information is transferred and securely read by the payment device.



What are the main hotel credit card processing fees?

As we just saw, several players are involved in payment transactions, and each charges a fee for its services. Who pays? Well, in most cases you, the merchant.

There are three main types of credit card payment fees:

1.

The **interchange rate** is sent to your payment processor by your customer’s issuing bank and is then charged to you, the merchant, for every credit card transaction. It is typically calculated as a percentage and fixed amount of the sale amount and is non-negotiable.
2.

An **assessment fee** is paid to the credit card networks for various network-related services. They vary based on a number of factors and are non-negotiable.
3.

Payment processor & gateway fees are charged by providers, including monthly fees and per-transaction fees. Additional fees may apply for setup, terminal rentals, and chargebacks. Some fees may be negotiable.

How do credit card fees vary?

Here are a few of the factors that can affect fees:

Credit card network.

Fees are generally higher for American Express cards than for Mastercard or Visa cards.

Card type.

Fees for rewards, corporate, and virtual cards are generally higher than debit cards and personal credit cards.

Cross border transactions:

Fees are higher for transactions that occur where the currency of the card is different from the currency of the transaction OR the country of issue of the card is different from the country of transaction.

Country-specific regulations:

Country-specific rules can put limits on the amount that can be charged to a merchant by all parties involved in a transaction.

Transaction detail:

Transactions that have fewer details in the payment request are considered riskier than those that contain data supporting the transaction.

Merchant.

Fees may vary according to the perceived risk levels of the merchant’s business and industry, as determined by the Merchant Category Code.

Provider.

Fees and plans may vary by provider, so it’s important to request a full breakdown of charges and compare offers from providers.



Challenges in hotel payment processing and how to overcome them.

Now let's look at common pain points in payment processing for hoteliers and hosts:

- Using outdated or manual payment systems that waste time and lead to errors
- Managing multiple systems and vendors that don't integrate or talk to one another
- Vendors that aren't there for you when you need support
- Hours spent reconciling payments
- Managing chargebacks, refunds, and fraud
- Navigating complex fee structures that seem to favor everyone but you
- Accommodating new payment methods and preferences
- Waiting a long period of time to receive payments
- Handling and understanding chargeback rules
- Complying with complex and constantly changing PCI regulations
- Complying with complex, vague local payment regulations (for example, Strong Customer Authentication) to avoid hefty fines.
- Keeping guests happy while becoming a payment expert



The benefits of an integrated payment solution.

While none of the above challenges are insurmountable, you can't do it without efficient, reliable technology. The perfect scenario? A payment solution that combines a payment processor, payment gateway, and merchant account and is integrated with your PMS.

Here are just a few of the benefits you will enjoy with that type of setup.

Delight your guests

Hospitality is all about catering to guest preferences, right? That includes accommodating their preferred payment methods and providing a frictionless payment experience.

With a modern payment processor, you can offer your guests all the most popular payment options, including credit, debit, contactless, and mobile wallet.



Speed up transactions

Contactless payments are up to 10 times faster than other in-person payment methods, [according to Mastercard](#).

That means guests aren't drumming their fingers on the front desk while an employee fumbles with cash or types in information manually.

With a payment processing system, payment details are instantly captured at the tap of a card and stored in the guest profile for future stays.



No more data errors

When card details are entered manually, the margin of error increases significantly – and so do fees and chargebacks.

A payment processing system reduces data entry and calculation errors. The staff spends less time fixing problems and more time taking care of guests – and that's a beautiful thing.



The benefits of an integrated payment solution (cont.)

Make reconciliation a breeze

When payment processing is manual or scattered across systems, too much time is wasted transferring data, reconciling payments, and resolving issues among providers.

With an integrated payment system, you have one guest profile for all transactions and one point of contact for resolving issues. Everything is automated and in sync with your PMS, reporting included.

Save money and time

For lodging operators, a major point of resistance to credit card payments is they're perceived as costlier than cash. But think about the costs of not accepting credit cards, including lost bookings, higher labor expenditures, cash shortages, and theft.

By partnering with an integrated payment provider, you can cut out those pesky intermediaries, getting value for what you pay, saving time and costs of training employees on multiple systems.

Make spending easier for guests

A [recent study from MIT](#) found that using credit cards stimulates the brain's reward system and an urge for further spending. And travel is the perfect opportunity to incentivize guests to treat themselves with upsells like a room upgrade or room service, especially when the payment process is seamless.

Plus, with a website [booking engine](#) integrated with your payments system and PMS, you'll receive direct reservations while you sleep! Payments will be processed more efficiently and received more promptly.



How to reduce chargebacks and protect your property against fraud:

The travel industry is infamous for having one of the highest rates of fraud and chargeback among major sectors.

Why? For several reasons, including the high proportion of card-not-present transactions, relatively high transaction amounts, and lag time between bookings and stays.

What exactly is a chargeback?

As part of consumer protection measures, consumers can challenge unauthorized and fraudulent charges to their card, as well as purchases that don't live up to standards. Chargebacks follow payment brand rules and are heavily in favor of the cardholder. This puts the responsibility on the hotel to prove that the charge is legitimate.

Most chargebacks are the result of a billing error, unauthorized use of a credit card, fraud, or complaints about quality. So-called "friendly fraud" occurs when a consumer doesn't remember the charge or didn't like the experience, and files a dispute with the credit card company instead of asking the hotel for a refund.

The cost of chargebacks to accommodation providers

Chargebacks are not only a big pain, they are also extremely costly. In addition to a chargeback fee of \$25 or more, there are the additional costs of lost revenue and time spent resolving the issue. Even if you successfully challenge a chargeback, the fee is non-refundable. And the more chargebacks you receive, the higher the fees.



How hotels can prevent and manage chargebacks and fraud?

Given what's at stake, it's in your best interest to take steps to protect your business and resolve disputes quickly. Here are a few ways to do so:



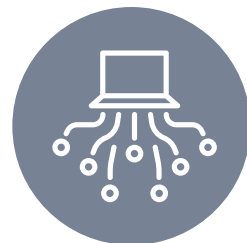
Be truthful in advertising.

Chargebacks often occur when expectations are not met. Make sure your marketing content provides an accurate representation of the experience you provide. Always strive to exceed expectations.



Be transparent.

Commit to integrity in pricing. Be upfront about fees, taxes, and cancellation policies, and be VERY clear about refund and cancellation policies. Provide a breakdown of charges on receipts, including your property's contact information and phone number, so that if guests have a billing question they contact you first, not their bank.



Go digital.

On your booking engine and at check-in, require the guest's consent to pricing and your hotel's terms and conditions of service. For card-present transactions, use an EMV terminal with chip technology.



Be vigilant.

Close to a third of all chargebacks are from a stolen card, according to Expert Market. Train staff to be on the lookout for signs of fraud. When taking payments, they should always ask to see the credit card and photo ID, even if the information is on file, and verify that the ID matches the card.



How hotels can prevent and manage chargebacks and fraud (cont.)



Keep records.

For card-not-present transactions, keep accurate records of the guest's contact information, any receipts and correspondence between you and the guest, and notate all events that occurred during their stay. Ensure that the descriptor that appears on guest credit card statements clearly identifies your property by name.



Be proactive.

After check-in, call or text guests to ensure they are satisfied with their room. At checkout, ask how everything was with their stay. Train and empower employees to handle payment questions and resolve complaints to the guest's satisfaction.



Don't procrastinate.

In the event of a chargeback, respond quickly, providing documentation to prove the charge is legitimate. If a refund is warranted, then process it right away to avoid getting a chargeback in the first place.



Choose your partners wisely.

Find a payment provider that has hospitality industry expertise, offers fraud detection tools, and provides best support for mitigating chargebacks and complying with data regulations. (Learn more about [secure hospitality payments here](#).)

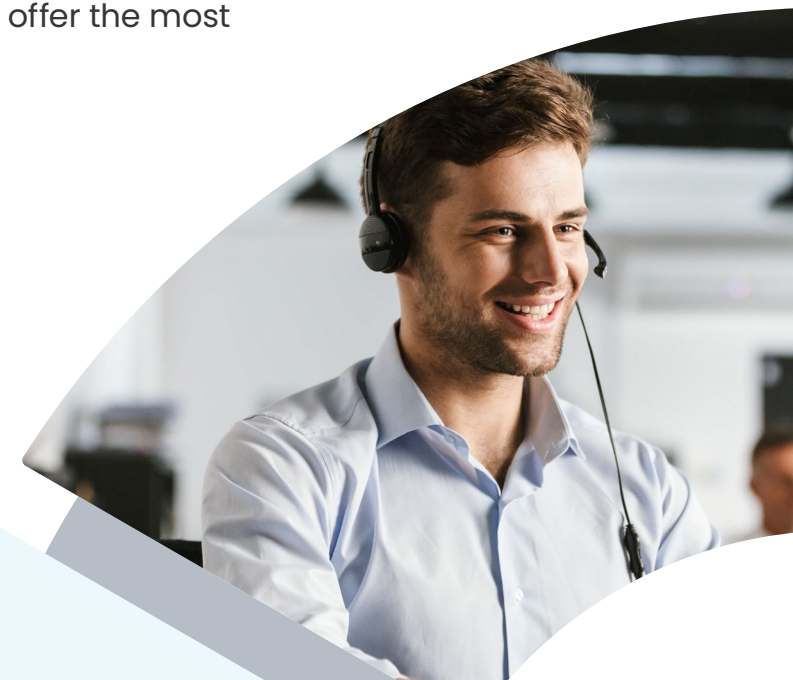
For more info, read our blog post and download our cheat sheet for [tips on reducing chargebacks](#).



How to choose a hotel payments solution:

Now that you have a solid understanding of trends, challenges, and solutions in hotel payment processing, the next step is to choose a payments provider. Not all providers are equal. To find the ideal fit for your property, look for the following features.

- **Easy implementation.** Your payment processor should be quick to set up, intuitive to learn, and easy to use.
- **State-of-the-art hardware.** Look for a provider that offers the newest, most secure payment terminals on the market, allowing you to accept all major credit cards and payment methods, including contact-free and EMV chip cards.
- **An integrated payment system.** Make life easier by seeking a provider that combines multiple functions in one system, including payment processor, payment gateway, and merchant bank services.
- **An integrated PMS platform.** To optimize performance, look for a cloud-native PMS platform that is integrated with core systems like a booking engine, revenue management system, channel manager, and payments solution.
- **Transparency in pricing.** Find a partner that offers a flat rate and no hidden fees and will offer the most favorable terms for your property.
- **In-house support.** Look for a partner that specializes in hospitality-based payments and provides risk-analysis and support services for responding to disputes.
- **Quality reporting.** Reports should be easy to understand, providing a snapshot of sales, payments, deposits, fees, and overall performance all in one place, helping you keep a finger on the pulse of your business.
- **Secure and compliant.** To ensure that guest data is secure and your property is protected from fraud and chargebacks, your provider should be PCI-certified and fully compliant with SCA, PSD2, and 3DS regulations.



The ultimate payoff: improving the guest experience.

With the right tools and processes in place, you'll be well-positioned to provide a seamless, customer-centric payment experience. This will help you earn positive reviews that in turn will attract more guests. It's a virtuous circle that will solve a lot of your daily operational headaches.

Now it's time to apply all your newfound knowledge to implement the perfect payment processing system for your property.

Interested in finding out how Cloudbeds can help your property take control of payment processing?

Get started with Cloudbeds Payments today! >>>>>>>





Get easy, integrated payments built for hoteliers and hosts.

Cloudbeds empowers you to create a frictionless payment experience for your staff and your guests.

Get started with Cloudbeds Payments today!



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