The Ultimate Guide to a Payments Business Case

How to convince key stakeholders of the importance of payments

A whitepaper practical guide on the potential benefits and economic justification for a payments-related business case

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OVERVIEW

The concept of guest-centric payments seems to be a radical shift for the hotel industry; however, this approach to customizing payments to the customer's preference has long been the norm in most industries. Currently, almost every hotel globally has a payment strategy based on where the property is located – not where the guest is coming from. This 'property-centric' approach to hotel payments resulted from centuries of on-site payments, and more recently, legacy technology systems and hospitality industry ownership structure.

The move to 'guest-centric' payments finds its origins in a few critical developments over the last decade: smart-phone technology and the growing importance of alternative form of payments. In the case of smart phone technology, a hotel guest with brand loyalty tends to interact with a hotel brand through his/her one device; thereby making payment inconsistency across properties much more noticeable to the guest experience. More and more customers rely on other payment methods then cards. With a property-centric payment strategy, these guests would be able to pay with their preferred form of payment at hotels in their home country but will not be able to complete a booking (unless referred to a home-based third-party booking agent) for a hotel outside their home country.

This analysis aims to look at the costs and benefits associated with the move from property-centric to guest-centric payments. Included in this analysis will be recommendations about which topics need focus as part of creating a business case to implement this strategic change.

INITIAL CHALLENGES

For a transition to guest-centric payments, hoteliers face a few significant but surmountable challenges:

- The greatest challenges are long-standing practices. Room rates are posted in local currency. Funds need to be received by the hotel in local currency. A hotel brand may never wish to touch the funds in fear of violating brand management agreements or protocols.
    - As momentum has increased for guest-centric payments, hoteliers have begun to embrace a notion that the brand can operate comparably to an OTA with regard to payment processing. Payment partners have created solutions which can address these concerns in mindset, however, commitment and communication are critical.
- Legacy systems also impose a significant barrier. Many booking systems require a 16-digit credit card for confirmation of a booking. Moreover, many of these systems have lacked flexibility in adding new forms of

payment as well as modifying payment flows.

    - These legacy constraints do still exist. Various technical partners, including GDSs and CRSs have made inroads in allowing for locally preferred payment methods in the booking flow.

- The ownership structure of hotel brands adds a layer of complexity unseen in any other industry. Unlike an airline or OTA where one company receives the funds for all sales directly into the company's bank account, a hotel brand may book transactions for hundreds or thousands of distinct owners. Oftentimes, the hotel owners have local banking relationships and expect better rates and quicker access to funds through local payment processors.
    - Costs associated with property-centric payments are simply higher for any cross-border guest. With appropriate communication, the vast majority of hotel owners will realize a significant improvement in profit margin with a move toward guest-centric payments.
    - While these challenges are formidable, the technology partners of hotel brands and payment companies have already established solutions which enable the move toward guest-centric payments. Again, the purpose of this assessment is to provide hoteliers with tools to educate stakeholders regarding the various benefits to a guest-centric payment strategy.

OPPORTUNITIES WITH GUEST-CENTRIC

The complexity of implementing a guest-centric payment strategy emanates from the many component parts to the payment ecosystem. The different elements often lead to options in approaches with different economic benefits and costs. This analysis will address:

- Central payment processing (often referred to as COBO)
- Card payment optimization for cross-border guests
- Locally preferred payment methods (alternate forms of payment "AFOP")
- Managing fraud and chargebacks
- Foreign currency conversion
- Right-sizing B2B payments

The notion of ***Central Payment Processing*** or COBO (collecting on behalf of) is a solution to guest-centric payments wherein the hotel brand collects and processes payment information centrally. Effectively, with central payment processing, the hotel brand, through its website, apps and call center, operates payments much like an OTA with a merchant of record relationship to the brand, not the specific property.

For cross border guests, the notion of ***Card Payment Optimization*** is commonplace in other industries. With optimization, a merchant, such as a hotel brand, will design a web of credit card processing partners based on the merchant's legal entities. The merchant, with the aid of its gateway or PSP, will route the transaction to the most appropriate payment provider in order to minimize credit card costs and maximize authorization rates on these transactions.

In many countries, consumers do not care to pay for transactions with a credit or debit card. In these markets, other ***Locally Preferred Forms of Payment*** are more prevalent. These payment methods, like WeChatPay in China or iDeal in the Netherlands settle more than 50% of online bookings in these markets. These payment methods are critical to converting future guests from these countries – yet with a property-centric approach, the methods would only be available for domestic travel.

Managing Fraud and Chargebacks is something most hotel brands have not endeavored to try to do in the past. Since, historically, all transactions were completed at a property, the central brand or corporate headquarters had very limited access to information regarding fraud or chargebacks. In other industries, these negative impacts to the bottom line are often managed very proactively with information being shared across an organization or even an industry.

For hotel transactions involving cross border guests, ***Foreign Currency Conversion*** happens. In most cases, the currency conversion happens with the card schemes or in some instances with dynamic currency conversion (DCC). In most other industries, the currency conversion follows the rules of multi-currency pricing (MCP). With MCP, the guest experience is completely in their own designated currency. Research consistently shows that MCP results in much higher conversion rates with consumers The management of MCP (vs. DCC) allows for better control of the guest experience and profits for the hotel brands.

The final component to the payment business case analysis is ***Right-sizing B2B Payments***. With the incorporation of payment resources at a brand or corporate level, hotels will be able to better manage the aforementioned components of the payment ecosystem. These same payment resources will be able to assess the payment costs associated with third-party bookings. In many cases today, these B2B payments have had limited options given legacy technology requirements. The feasibility of more efficient B2B payments is a recent development in the payment area.

BENEFITS OF GUEST-CENTRIC

In order to design a proper business case to gain approval for a guest-centric payment strategy, an understanding of the cost reduction or revenue enhancement of each component is critical. For each of the previously mentioned opportunities, this document will attempt to identify the primary business case drivers to each:

Central Payment Processing

Centralized collection and processing of payments will provide the foundation for many components of the business case. Additionally, a few very critical direct benefits of centralization can be achieved.

- The centralized approach will allow for an easier transition to guest-centric payments. The COBO will allow for more efficient applicability of entities required to achieve the overall benefits. More important, the central approach will allow the hotel brand to keep ***control of the guest experience***. The primary direct cost savings will be the prevention of channel shift. If a guest's preferred payment method is not available, the guest may redirect their transaction to a third-party for booking. The hotel would then pay a commission for what could have been a direct sale.
- With a direct relationship with the guest via centralized collection, the hotel brand can leverage this connection to ***upsell other components*** of the guest's travel experience, such as room upgrades, spas, tour bookings, tickets, etc. These supplemental revenues are much more complicated in a post-stay, property-centric method of payment.
- In cases where the hotel does wish to receive funds from a centralized payment processing format, an ***increase in working capital*** is possible; however, payment companies have solutions available which would allocate the funds directly to hotel properties should that be the preferred option.
- The movement to centralized payment processing also provides a brand with far better ***brand wide data*** which can be used to design tools for other business decision-making.
- The centralization of payment processing creates efficiencies where individual hotel properties could not create on their own. For example, the centralized approach can create a much ***easier PCI process*** at hotels. The hotels will also benefit from streamlined payment processing and cost reductions.
- Centralized payments will provide ***benefits of scale***, achieving more advantageous terms with better equipped payment partners that operate worldwide.

Card Payment Optimization

Under the current structure, brands have very little visibility into payment processing metrics. The more significant benefits from centralized payments fall into the area of payment optimization.

- For any cross-border guest, the hotel will minimize costs for payment processing by viewing the BIN range (origin country) of the cardholder and routing that transaction to that country for processing. The card schemes have requirements which must be met for these transactions to route in this manner. The impact of the routing would be to ***minimize cross-border fees and benefit from lower interchange rates*** where possible.
- The optimization also allows for higher authorization rates on credit card acceptance which, in turn, yields ***higher conversion rates***. The economic quantification for this component is a bit challenging as a rejected transaction may result in a lost booking or the potential for the booking to shift to a different distribution channel. The benefit is either saving lost revenue or reducing channel shift costs.

Locally Preferred Payment Methods

Offering guests payment options based on from where they come ("locally preferred") will provide an experience localized to the guest – not to the property. The value to the locally preferred payment methods are three-fold:

- By offering locally preferred payment methods, the hotel brand will allow for a higher conversion rate on its website and app. Given the direct booking is normally the most cost-effective channel, these additional conversions should ***reduce distribution costs***.
- The locally preferred payment methods often are charged as a flat fee – not as a percentage of revenue. With the high average transaction size for hotel bookings, this savings can be significant. (As an example, a €1.000 hotel stay may incur credit card processing costs in excess of €20 – 30 to receive payment for the transaction. A number of locally preferred payment methods cost less than €1 thereby resulting in ***significant cost savings***.)
- Many of the locally preferred payment methods ***do not include chargeback or fraud risk*** as they are categorized as a push payment. Costs associated with these chargeback or fraudulent transactions are not applicable for these methods.

Managing Fraud and Chargebacks

Currently, hotel brands have very limited insight into the costs for chargebacks and fraud across the properties as these two items are addressed locally. With a move to guest-centric payments, hotel brands will develop expertise in preventing fraud and reducing chargebacks. Without the starting data, calculation of the actual savings will be hard to quantify; however, in other industries, studies show a ***significant reduction***.

Foreign Currency Conversion

For all cross-border and currency guests, a conversion of currency happens. Today, technology has continued to adapt to the point that multi-currency pricing (MCP) and processing creates a more advantageous solution to hotel brands. First, the guest experience is clearer, resulting in higher conversion rates on brand.com booking channels. Second, with introduction of MCP, hotels ***can improve profit from 1% to as much as 4%*** for cross-currency guests.

Right-Sizing B2B Payments

Taking an approach to right-sizing B2B payments for third party bookings will result in cost-reduction, along with appropriate risk management. Current prevalent processes rely on the inclusion of a single-use virtual credit card to complete most third-party bookings. The booking is guaranteed through a legacy system flow. For this ease, and for reconciliation benefits, the hotel pays a standard credit card fee (which can be 2 – 3% of the transaction value). For many use cases, this approach is sensible, given unknown relationships among the parties involved and risks of non-payment. For known and contractual relationships among financially stable partners, this payment premium may overcompensate for the risk of non-payment. HEDNA's Open Payment Alliance has created the concept of the "payment manager" to allow for alternative forms of payment for B2B payments, which should result in ***cost-savings, including reduction in breakage***, for these known and contractual relationships.

CREATING A BUSINESS CASE

In designing the ultimate payment business case, the desired outcome of a payment strategy will be a good starting point. Some companies will define a grand vision of the future of payments within that company. Others will pursue a piecemeal approach. Among the questions to consider regarding the broader strategy:

- What do we hope to gain from our payment strategy?
- Do we wish to be an industry innovator or follower?
- How much do we care about our direct booking channels?
- How critical is the guest experience?
- What is our level of patience on implementing this strategy?
- Which of the many possible components of a payment strategy interest you?

For the actual business case, a much more granular level of information must be contemplated. This analysis recommends at least a discussion of these questions as a starting point to a business case:

1. What are our likely internal roadblocks?
2. What internal resources and knowledge do we have to undertake this project?
3. What company do we think that has a strong payment strategy? What other industries?
4. How might we design a strategic rollout? Over what time table?
5. Who are our guests? Where do they come from? Where do they go? What percentage are cross-border?
6. What problems are we facing because of payment-related issues? How widespread are they?
7. How will our ownership group feel about any change? What if they saved 1%? 3%?
8. Where do we have legal entities? What is our comfort level with accepting responsibility for receipt of payment?
9. How flexible are our systems? How flexible could they be if we could change profit by 3% of the room revenue?
10. Are we focusing on sales beyond the room revenue? Will we in the future?
11. What do we pay now for payments? What is our current chargeback and fraud rates? What is the likely future state of payment costs?
12. How quickly are we receiving payments from our payment companies? How quickly are third-party bookings being paid?
13. What is the time spent on payment reconciliation across our hotels? Does it differ based on third-party bookings?
14. How many of our third-party booking partners are known and contractual? How are they paying us?
15. How will we define success for this project?

There are no correct answers to any of these questions. Each one provides a baseline of information which must be gathered and analyzed to generate the strategy, the correlating investment and the subsequent ROI.