RETAIL

Wal-Mart 'taking a stand' in battle with Visa

Retailer says credit-card company's 'hidden fee' is four times higher in Canada than what consumers pay elsewhere

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Wal-Mart Canada Corp. says **Visa** should lower its credit-card fees for all merchants and non-profit groups – and not just for the giant discount retailer – raising the heat in an ongoing corporate tussle.

Wal-Mart came out swinging against Visa on Thursday, saying its "hidden fee" is four times higher than what consumers pay in other countries. "We are taking a stand for our customers because Visa's high fees can result in higher prices," Wal-Mart said in an e-mailed statement.

The latest salvo came the same day that Visa published a full-page ad in some newspapers, including The Globe and Mail, criticizing Wal-Mart for seeking an "unfair advantage" over other merchants and charities in negotiating transaction fees and "unfairly dragging millions of Canadian consumers into the middle of a business disagreement."

On Saturday, Wal-Mart disclosed it would stop accepting Visa at its more than 400 stores, starting in Thunder Bay on July 18, because the card's transaction fees "remain unacceptably high."

The dispute underlines retailers' growing frustration with what they consider to be excessive credit card fees that surpass those in other markets in Europe and Australia, becoming a test case for merchants that are looking for ways to lower costs and improve already-thin margins.

"It could get very nasty," said Richard Crone, chief executive officer of payments consulting firm Crone Consulting LLC in San Carlos, Calif. "It's a calculated risk, but this has just started."

He said Visa, the dominant credit-card operator, has a lot to lose if other retailers follow suit and consider dropping the credit card, especially as retailers move to mobile payments.

"It is absolutely critical for Visa," he said. "You feel like they're sticking their finger in the dike here in order to hold back a groundswell of merchant resentment about their pricing structure."

Wal-Mart has started to use its Wal-Mart Pay application south of the border, giving the retailer more control over customer information and potentially threatening Visa's dominance, he noted.

He said U.S. parent Wal-Mart Stores Inc. could be positioning the Canadian spat as ammunition in its legal fight with Visa south of the border. Last month, Wal-Mart sued Visa in the United States over the right to choose how customers verify debit-card purchases at the register.

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Wal-Mart: 'Bold' move seen as potential test for wider company

The companies have fought for years over fees and the right to steer customers to certain types of payments. Rob Livingston, country manager for Visa Canada, said fees here are higher than in some other markets because of heavier investment in innovation and technology by Visa and its bank partners. He said Canada has been ahead in such initiatives as chip cards, contact-less payments and mobile payments.

Visa and rival MasterCard came to a voluntary agreement with Ottawa in 2014 to shave its fees to an average of 1.5 per cent from more than 1.6 per cent and 1.7 per cent, respectively. Those rates went into effect for five years beginning in 2015.

Mr. Livingston said merchants pay for the speed, convenience and security of having electronic payments. "They also pay that fee so as not to have to give consumers credit on their own."

Still, Diane Brisebois, president of the Retail Council of Canada, which has fought for years what it calls excessively high fees, countered that Canada is not necessarily ahead of other markets in investing in credit-card payments.

She said chip cards were first introduced in Europe and Britain is "way ahead" in mobile transactions, for instance. "That is the excuse they have used for years and evidence proves the contrary." Her research has found that credit-card fees are as low as 0.28 per cent in France and 0.3 per cent in Britain, where they are capped.

Marvin Ryder, an assistant professor of marketing and entrepreneurship at McMaster University's DeGroote School of Business, said Wal-Mart may be using its "bold" move in Canada as a test for the wider company.

He noted MasterCard recently agreed to lower its fees to 1.25 per cent from 1.5 per cent for its largest customers with transactions of more than $3-billion a year, which would include Wal-Mart. Wal-Mart will continue to accept MasterCard, Discover and American Express.

Wal-Mart spokesman Alex Roberton said it doesn't comment on confidential agreements, and neither Wal-Mart nor Visa would disclose specific fees. Dirk Van den Berghe, CEO of Wal-Mart Canada, was travelling and could not be reached for comment.

Gary Sands, chair of the Small Business Matters Coalition, said it is glad the spat between Wal-Mart and Visa is putting the fee issue back in the public domain. "However, there is no small business in Canada that can afford to play poker with Visa, such as Wal-Mart can. ...If Wal-Mart is feeling pain, imagine what small business is going through."

He is concerned that when a big player negotiates one-off deals, small businesses are left paying for it with higher fees.

Wal-Mart (WMT)
Close: $71.30 (U.S.), up 18¢
Visa (V)
Close: $78.35 (U.S.), up 18¢

FIVE THINGS ABOUT FEES

How the fees work

Merchants are charged a percentage of the total transaction. For example, if you buy a set of pots and pans that costs $100 and the fee is 1.5 per cent, the store is charged $1.50 and keeps $98.50 from the sale.

What's included in the fee

Payment processors charge stores, restaurants and other merchants what is called the merchant discount rate. That rate includes the so-called interchange fee set by the credit-card company. The interchange fee is paid between banks for the acceptance of credit-card-based transactions.

Not all cards are the same

How much merchants are charged varies depending on the type of credit card. Stores are charged one rate for basic credit cards, but if you use a premium card such as Visa Infinite or World Elite MasterCard that gives reward points or other benefits, the rate is higher.

Not all purchases are the same

The amount merchants are charged can also vary depending on their business. Gas stations and grocery stores are charged different rates than other types of merchants. The fees can also be different if you're purchasing pots and pans online or by telephone than if you actually purchase them in the store.

Code of conduct

The federal government updated the code of conduct for the credit- and debt-card industry last year. The changes made it easier for merchants to opt out of their contracts if their payment processor raises rates or doesn't pass on savings from Visa and MasterCard. The code also applies to mobile payments and placed a six-month limit on the auto-renewal of contracts with payment processors.

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