

## Bar Owner Stood Firm and Won Lower Fees

By Keith Bradsher

*SYDNEY — The Merivale Group, Sydney's largest operator of upscale restaurants and bars, sees itself as the company that fought American Express and won.*

American Express has a different version.

With nine of this city's most fashionable restaurants and 40 bars, Merivale draws Sydney's biggest spenders, who often want to pay with corporate or personal credit cards to earn perks like frequent-flier miles and other rewards. But many are unaware that each swipe requires Merivale to pay banks or credit card companies a fee — one that the restaurant and other retailers had long argued was too high.

Thanks to changes in credit card rules imposed by Australia's central bank, by last year the merchant fees that Merivale pays Visa and MasterCard per transaction had been slashed by more than half, to 0.74 percent of each transaction. But American Express, which is not subject to the regulations because its credit card transactions initially did not go through a bank, was still charging 2.81 percent early last year, said Brett Sergeant, Merivale's general manager.

Credit card fees were a big expense for the chain, equal to a tenth of its annual profit target, he added.

When American Express refused to lower its fee, Merivale responded by charging diners who paid with that card an extra 2.75 percent of their total bill, while letting users of Visa and MasterCard escape the surcharge. A handful of clients

*Negotiation process*

*AmEx refused to negotiate... and Merivale chose to apply its Best Alternative to a Negotiated Agreement (BATNA) – i.e.: it took*

complained, but most customers simply reached into their wallet and paid with a Visa or MasterCard instead, Mr. Sergeant said.

American Express disagreed, saying its corporate customers in particular were unhappy about the restaurant's surcharge policy. American Express started steering its cardholders to rival establishments that had not imposed surcharges.

But early this year, American Express sharply reduced the percentage that it charges Merivale restaurants and bars, and Merivale dropped its surcharge on American Express transactions. To undo damage from the dispute, American Express began promoting the chain to its members with incentives like triple points at Merivale's venues and a free bottle of Champagne for large groups.

From American Express's perspective, the decision to reduce its fees for Merivale was not capitulation, but part of a broader cut in fees it charges restaurants. Merivale received an even deeper cut in fees because it opened more venues and qualified for a bigger volume discount.

Mr. Sergeant said that the surcharge had forced American Express to bargain. "There is a lot of pushback from operators" of restaurants, he said. "And AmEx is becoming more flexible."

*unilateral action.*

*As a response, AmEx applied its own BATNA – i.e.: it also took unilateral action.*

*Merivale's BATNA proved stronger (see: "most customers simply reached in their wallet and paid with Visa or MasterCard"). As a result, AmEx came back to the negotiation table.*

*From then on, the two parties were able to create mutual gains.*