

“THE IMPACT OF INTERCHANGE FEES ON SMALL BUSINESSES”

TESTIMONY OF
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Chairman Altmire and members of the Committee, good morning. I am honored to be here today to offer my perspective on credit and debit card fees and how they affect my small business.

I want to thank Chairman Altmire for his leadership on this subcommittee and for giving us all the chance to air our views. I ask that my entire testimony be made part of this hearing's record.

I am a franchisee of Pizza Hut. I own Aurora Huts, LLC and operate 55 Pizza Huts in western Pennsylvania. We employ approximately 1,300 people and have a payroll of around \$10,000,000. We have owned and operated this business since 2007 when I left Pizza Hut Corporation as its Chief Operating Officer to become a franchisee. It is a family business, as my children also are owners and operators of this business. It is my desire to see this business grow and furnish an opportunity for others to find a lifelong satisfaction being private businesspersons.

Even though Pizza Hut is a well-known national and international brand, franchisees like myself, the actual restaurant owners, operate most of the restaurants across the country. In fact, there are 6,500 Pizza Hut locations in the United States and I'd safely say there's one in just about every Congressional district. I believe that my views match the business model and customer payment realities of all of our franchisees nationwide.

Our franchisees, through our trade group, the International Pizza Hut Franchise Holders Association, have the pleasure of visiting many of you in Congress every spring during our annual fly-in. Most of you on this panel have taken the time to meet with us and we are grateful.

By most definitions, I am considered a small business owner and that's why I am here today. My restaurants mostly are located in small towns. While I own a few Pizza Huts in larger metro markets such as Pittsburgh, the majority of my restaurants and employees are in little towns with populations in the range of 2,000 to 10,000 people. In fact, we opened a new location in Mars, PA in early 2008. We spent approximately \$1.8 million in development of that location and have 30 employees there. At all my restaurants I employ a combination of part-time and full-time workers who work different shifts and schedules. Our workers and our customers are by far our greatest assets.

In my part of Pennsylvania, we do not have to watch the evening news to understand the state of our economy. My customers, my employees and I are all at the front-end of the economy. Every store closing, every layoff, every tax regulation and every missed home mortgage payment directly affects us. At the same time, every new hire, every new business opening, and every new customer gives us a bit of optimism for our towns.

So at this time in our economic anxiety, Congress has given merchants and our customers a lift—you have begun to introduce competition into a “market” where no market forces previously existed. In passing the recent financial services law—and specifically the Durbin Amendment—you voted to ensure that debit card fees were reasonable and proportional to their actual costs—a major improvement over the extraordinarily high swipe fees imposed on us by the big banks and their card associations.

Let me be clear—I am pro-card and pro-bank. Both credit cards and debit cards are key forms of payment that are vital to modern commerce. I operate in a very competitive market—most people have a seemingly endless number of options on where to dine and where to spend their earnings. Unfortunately, no such options have existed for me when it comes to interchange rates and the payment options I give my customers.

Here is the scope of my problem with interchange fees. These are the black and white numbers that I look at every morning when I review the previous day’s sales--

Credit and debit card sales account for roughly one-half of my total sales. In fiscal year 2008, sales in my 55 restaurants on credit and debit cards amounted to \$15,358,826.53 with fees amounting to \$345,941.95. Those fees represented 2.252% of total sales, including a chargeback of \$6,108.87. In 2009, sales on cards (credit/debit) were \$15,769,989.39 with fees of \$369,243.01. Those fees accounted for 2.341% of total sales, this included \$2,078.08 in charge backs. As of July 17, 2010, I had card sales (credit/debit) of \$10,205,739.12 with fees amounting to \$249,388.00. That is 2.443% of total sales with charge backs of \$1,440.09. Therefore, in just the past couple of years, our rates have gone up by 8.5%. That translates to estimated increase for 2010 of approximately \$19,554.76.

Under the new rules, I am assuming that those fees will be more competitive and will be reduced. Much has been said about whether this savings will go to the

consumer or go into the merchant's pocket. Far from being the "greedy" option that the banks have tried to demagogue, I want to reinvest in my business, because that's how my business grows. Constant reinvestment and tailoring our product and pricing to the customer are how I increase sales and revenue. For example, over the last eight months we have dramatically marketed a heavily discounted product ("any pizza for \$10") in an effort to accommodate customers in a sluggish economy. The end result was certainly a softer bottom line, but we feel the public was very responsive to our desire to change the past business model. I offer this as an example of how we constantly react to the changing needs of our customers. We invest in new products and new thinking. That's entrepreneurship.

Therefore, if I could just save the projected fee increase for this year, I would have 20% of equity of a new restaurant, or I could buy a new fryer for menu additions, or remodel an older building. It could mean that we are able to provide wage reviews or merit adjustments to my employees. We could provide additional and more convenient locations for my customers. In any event, that money would certainly pass through the economy with multiple effects. My fellow merchants and I could again take gambles with the kinds of investments that lead to growth and jobs—as opposed to the stagnation that we currently see.

As I understand it, we are now entering a phase in which the federal rulemaking process will begin. The banks will do everything they can to lobby the Federal Reserve on this so they can continue their high prices. I hope that this Committee and all Members of Congress will exercise their duty of oversight to ensure that the new law is followed as it was written and intended, and that relief for small businesses is achieved.

I hope that the regulators will take the view that there should not be any interchange fees on debit transactions at all. There are none on check transactions and debit is cheaper for banks to process than paper checks. So, while the new law allows banks to cover their costs, it should keep that to a bare minimum and not allow them to sneak unrelated costs like their marketing and rewards onto my books. Hiding fees like that always seems to lead to problems and this situation proves that rule.

Plainly put, this is a simple matter. What Congress was finally able to do was get beyond the noise created whenever banks' hidden fees are exposed and threatened. Business owners and consumers pay hundreds and thousands of

dollars each year in hidden fees. Exaggerations and hyperbole are characteristics of any Washington argument and the interchange debate has seen its fair share of distortions. The big banks will continue to say that they can't survive in a transparent and competitive market. But I do. Again, this is a simple issue. Where there was once no market, one exists now. Hopefully, I will soon be able to tailor the ways in which my customers pay so that the consumer and I are being fairly treated by banks and card issuers. The newly-created fair and level playing field will help small business flourish.