

A “Charge” Toward Greater Profits

How Petroleum Marketers Can Mitigate Credit-Card Fees

by Bob Gatty

As the price of motor fuels continues to skyrocket, increasing numbers of motorists are turning to plastic instead of cash when they fill up their tanks — a simple act that costs fuel marketers big bucks and rips into their bottom lines.

“It’s the economy, stupid,” was a phrase used by Bill Clinton when he defeated George H.W. Bush in the 1992 presidential race. Today, in considering why marketers’ fuel profits are dwindling, here’s one answer: “It’s the fees, stupid.”

In 2006, credit/debit-card fees, as a percentage of convenience store gross profit, were 7.6 percent up from 4.8 percent in 2002 according to the National Association of Convenience Stores (NACS). The total cost of credit/debit fees was \$6.6 billion, far exceeding convenience store industry profits of \$4.8 billion.

Today, the situation is worsening as pump transactions increase commensurate with the cost of fuel. With fill-ups costing \$40 or more, consumers pull out their cards instead of their cash. In February, NACS said 60 to 70 percent of all motor fuel purchases were paid with plastic.

The association estimates that credit card fees cost a typical convenience store 2.5 to 3 percent of each transaction, a cost made up of several components — the largest of which is the interchange fee charged by Visa and MasterCard and their member banks as well as American Express and Discover.

Is there a solution?

Essentially, if a marketer wants to benefit from sales provided by plastic-



paying customers, the fees must be paid. However, there are some ways fee costs can be mitigated, and ways that plastic can be used to increase sales and profit and to compensate for those transaction-fee expenses.

One way is to encourage customers to use PIN-based debit cards instead of credit cards because they carry smaller fees — although some retailers find it difficult to steer pay-at-the-pump customers to choose debit and enter a PIN unless their pumps have that capability.

But there are other approaches to consider:

The Switch

Some companies, such as ISD Corporation, provide a payment switch — a software application that can inter-

face with any point-of-sale system, consolidate all electronic transactions at the enterprise level and then route them to one or more payment processors for authorization and settlement. The payment switch enables a merchant to bring some of the transaction-switching capabilities of payment processors into their own operation to run over their wide-area network (WAN).

According to John Filby, ISD president and chief executive officer, merchants who use payment switches as part of their payment management strategy can replace some recurring transaction fees with a one-time license fee or a monthly subscription fee.

“If the retailer has a WAN in place, we would implement our software at headquarters and interface with the POS

systems at all locations,” he says. “In-store systems and pumps would go over our high-speed broadband connection to the switch, which would translate and reformat all transactions and then route them for payment processing.”

Such a system enables the merchant to cut out some middleman processor fees, Filby says, because some transactions can be routed directly to specific endpoints, such as the card networks, the electronic check processor or the gift-card processor.

The system also can identify whether the card swiped by the consumer is capable of PIN debit transactions, enabling the merchant to take advantage of the lower debit-card fees. “We all carry multifunctional cards,” Filby says. “Our switch can intelligently prompt consumers to enter that PIN when that is the lowest-cost transaction type, and the transaction can run as a PIN debit and save that marketer 40 to 50 percent compared to running it as a credit card.”

Another advantage is the ability to accept corporate cards and to capture sales tax data and line-item detail, thus qualifying for a merchant discount about 25 percent lower than otherwise would be the case.

Additional savings occur when payment security standards or specifications are changed by the card networks and processors. Without a payment switch, Filby explains, the marketer must make these changes individually at every location. “That is a significant IT project. It occurs frequently and is expensive. I’ve had heads of IT tell me they can justify the payment switch on that point alone.”

The switch, Filby adds, allows marketers to generate revenue opportunities by selling prepaid cards, either for their own brands or other merchants who want to distribute through the marketer’s stores. “All of those cards need to be electronically activated at the time of purchase, and our system will do that. We make it easy for them to sell third-party prepaid cards,” he says.

The Fleet Card

One strategy to generate additional fuel sales and reduce transaction fees is through the use of proprietary fleet cards, say Benton C. Routh, president of petroleum marketer private label programs at FleetCor, and Mike Dubyak, president and CEO of Wright Express.

“In addition to reducing costs, marketers can lock in volume at their sites,” Routh says. “The fleet manager passes out the cards to drivers and instructs them to purchase their fuel at those locations. So it steers the volume to those sites.”

“With fuel prices on the rise, marketers managing their own fleet-card program are using more and more of their working capital to fund their card programs,” Dubyak says. “Changing to a funded program can help fuel marketers save money by reducing bad debt expenses and the cost of carrying high fuel-related receivables.”

Both Routh and Dubyak say it makes sense for marketers, particularly those who focus on serving local fleets, to establish a proprietary private-label card. “A card with the marketer’s brand drives more fleet business to the store network, builds customer loyalty and increases non-fuel purchasing of higher margin items,” Dubyak adds. “Another great option is to offer a co-branded card, which has the marketer’s logo and also offers universal acceptance. A co-branded card offers the benefit of convenience for customers when they travel outside of the marketer’s geographical area while reinforcing brand loyalty for the marketer.”

With fuel margins shrinking on an almost-daily basis, marketers who want to be competitive in the marketplace need to look at boosting their bottom lines wherever they can. Being able to offset expenses related to credit-card transactions may be a key factor for continued success in today’s industry.

