

PROFIT *through* PLASTIC

Retailers deploy systems to trim credit-card fees, drive customer loyalty

By Bill Donahue

bdonahue@cspnet.com

O’Ryan’s Marathon in Monticello, Minn., finally grew tired of the shakedown. In January, it introduced a solution designed to stem the flow of dollars from its bank account to the pockets of “those bullies” over at the major credit-card companies.

The solution, called Direct Gas Rewards, has helped whittle down the number of Visa and MasterCard transactions made at the store, sparing O’Ryan’s from the onerous processing and interchange fees that accompany them. Ultimately, O’Ryan’s wants to cut its daily credit-card transactions in half, according to T-Jay Johnson, general manager of O’Ryan’s, which has three stores just outside of Minneapolis.

“It’s amazing what the credit-card

BE DIRECT: O’Ryan’s Marathon of Monticello, Minn., invested in Direct Gas Rewards as a way to trim credit-card fees. It’s also helping the retailer drive customer loyalty and, in the process, spur sales.



NOT SHY: O’Ryan’s uses signage in-store and out to make customers aware of the program. The signage comes from National Payment Card, the vendor that designed Direct Gas Rewards.

companies make,” says Johnson, who has worked for O’Ryan’s since 1990. “They’re making 7 cents a gallon today. They’re making a higher margin on fuel than we are. I’d almost rather take your check and hope it doesn’t bounce than take a credit card. ... You might as well not even pump gas sometimes.”

Unlike operators in more dire straits, O’Ryan’s doesn’t intend to shut down the gas pumps anytime soon [*CSP Independent*—Sept. ’07, p. 72]. The retailer is betting that its salvation, or at least something to alleviate the pain of accepting plastic, lies with Direct Gas Rewards, which was created by vendor National Payment Card.

Customers access the branded program through www.directgasrewards.com. Once they sign up, it offers savings of 3 cents to 10 cents per gallon as a reward for using a proprietary loyalty card that runs on the Automated Clearing House (ACH) system. ACH has traditionally been used for processing checks electronically, but it’s now helping retailers skirt the credit-card companies’ networks.

The system uses a magnetic-stripe-based driver’s license or loyalty card as the payment vehicle, which is tied to a customer’s bank account. Johnson says the only downside is that it generally

takes about a week for a customer to get fully enrolled in the program.

“Credit cards just eat up your profits,” he says. “On a typical day our credit-card sales will be \$14,000. Yesterday we did \$500 in Direct Gas Rewards. I don’t know how long it will take, but I want to cut that number [\$14,000] in half.”

In 2004, O’Ryan’s paid “something like \$50,000” in annual credit-card fees, according to Johnson. With the rising cost of fuel, such fees rose to \$100,000 a year in 2007. While softening the effects of credit-card fees was a key consideration, another force compelled O’Ryan’s to adopt the program.

“The biggest thing was loyalty,” says Johnson. “They can save 10 cents a gallon. You can offer [customers] discounts on car wash, propane and groceries, and it only costs me 15 cents per transaction vs. 2.3% on a \$100 fill-up.”

On-site marketing helps build awareness. The marketing support comes from National Payment Card, and includes pumptoppers, indoor and outdoor posters and a scrolling marquee that promotes the price rollback. O’Ryan’s also does its share of advertising, mainly in a local paper that comes out every Thursday.

As of early March, the program

accounted for sales of \$500 a day, according to Johnson. After just a month or so of implementing the program, he estimates he had more than 60 people signed up for it. Getting additional signups, which he doesn’t foresee as a core challenge, rests with the people working behind the counter.

“If I have a customer writing a check or using a Wells Fargo Visa, I tell them, ‘Why not try this?’” he says. “I commend my cashiers. I was giving them gift certificates as incentives for the most returns on a card. Your employees are your No. 1 customer.”

Getting buy-in from all involved, from the clerk-level employee to the store owner or company president, is essential to getting such a program off the ground, according to Joe Randazza, CEO of National Payment Card, Boca Raton, Fla.

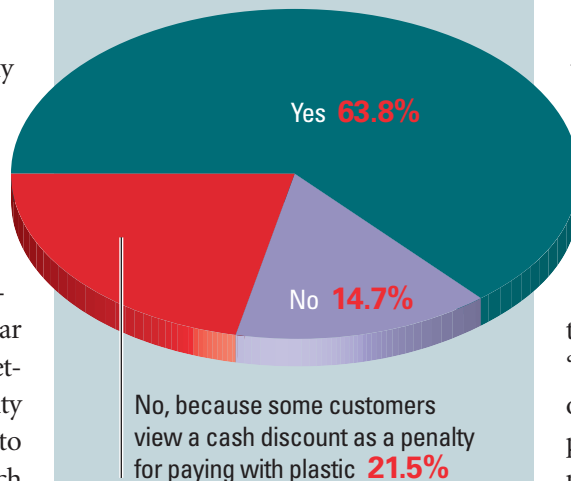
“The real endgame here is to give merchants the ability to have a proprietary debit-card program [with which] they can control the payment process ... and direct payment back to the customers,” he says. “Microtransactions are killing these guys, these retailers. If they’re being charged 65 cents on a \$1 transaction, they’re losing money.”

National Payment Card launched its ACH-based program in its first store in January 2007. The company had 350 locations using the system by the end of March 2008, and has 1,700 stores under contract through the end of the year, according to Randazza.

“Merchants are screaming about this, but not enough are getting involved,” he says. “If I had advice for a retailer, it’s don’t let the train leave the station. If you’re concerned about high credit-card processing costs, look into the alternatives.”

MORE PAPER, LESS PLASTIC

Do you support a cash discount for gasoline purchases?



Source: Kraft/CSP Daily News poll, 232 respondents

Other Alternatives

National Payment Card is hardly alone in providing solutions for reducing credit-card fees and enhancing customer loyalty. In the ACH space, also known as decoupled debit, other companies—Capital One and Tempo Payments, for example—offer similar alternatives. Still others, Outsite Networks among them, provide loyalty systems that can be engineered to change a consumer's behavior, such as paying with paper over plastic.

How the system works: When a customer signs up, he's issued a radio-frequency-identification (RFID) tag. Each time he comes back he swipes the tag at the pump or in the store. The system issues targeted, one-to-one rewards based on how often he shops there and how much he spends.

"What some retailers do is link it to certain branded credit cards," says Anton Bakker, president and founder of Outsite Networks Inc., Norfolk, Va.

"I'd almost rather take your check and hope it doesn't bounce than take a credit card. ... You might as well not even pump gas sometimes."

T-JAY JOHNSON *O'Ryan's Marathon*

"Say you have a Shell card or a BP card, which may have a smaller fee. They'll link these loyalty incentives to those specific cards."

Retailers on the whole tend to prefer cash over plastic, even if it means giving customers a discount on cash purchases (see chart, above). And while the Outsite system may help reduce credit-card fees by persuading customers to pay with cash, the goal of any

effective loyalty program is to drive sales.

"You can play messages at the pump, and this is targeted audio," he says. "The system might tell you that [this customer] drinks coffee, so it will play a message like, 'Doesn't a cup of coffee sound good right now?' And that triggers maybe a 50% response rate in coffee sales. It's reminding people of what they already purchase."

It appears to be helping. Retailers using the Outsite system saw, on average, a 7.2% increase in in-store sales in February 2008 vs. February 2007, though some saw increases of 9% or higher. At the fuel island, for the same time period, retailers using the system saw a 1.3% increase in gallons sold, on average. Of the 1,200 stores using the system, 200 are run by operators of 10 stores or fewer.

Retailers may incent customers to spend more—or merely sign up for the program in the first place—with the chance to win prizes sponsored by Outsite Networks, such as a \$10,000 gas giveaway or a luxury cruise.

"All you have to do is say something simple, like 'double points' and 'twice the chance to win' something of value," says Bakker. "Some independent retailers might say, 'If you pay cash, you'll have twice the chance to win this cruise or get a cash giveaway.' You can incent them toward a behavior change."

Costs for the system: Retailers are responsible for the cost of installation, which runs \$500 to \$800 per site, according to Bakker. Retailers also pay a monthly fee of \$300 to \$350 and must pay for the cost of the RFID loyalty tags. It's not uncommon, however, for retailers to partner with key suppliers and subsidize those costs.

As for O'Ryan's in Minnesota, it's still in the ramp-up and fine-tuning phases of its Direct Gas Rewards program. "Right now we're doing the 10-cent discount to get people rolling," says Johnson, O'Ryan's general manager. "It's a bigger incentive. ... That number might change, but 3 cents will be the minimum."

Johnson expects the more attractive price at the pump to draw in customers when they happen to miss everything else O'Ryan's has to offer.

"We have a full deli here," he says. "We have propane. We have a car wash, and that's the main moneymaker. We have a meat market that we lease out. This place is a good stop on the way over to the cabin.

"Now we just need a liquor store." ■