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Gas station owners squeezed by credit-card, fuel cost

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If you walk into Shafeeq Syed's Shell gas station in Haltom City looking to buy a bottle of water with a credit card, he's inclined to just give it away or point you to the water fountain.

He says he'd rather do that than fork over money to the credit-card company for processing the sale. Whether it's \$50 to fill a tank of gas or \$1 for a bottle of water, credit-card users are costing Syed as much as \$3,000 a month in transaction fees.

"That really is cutting into my profits," he said. "It's no problem if they use my Shell card. It doesn't cost me anything."

As the price of oil continues to hover in record territory, gas-station owners say they are actually finding it harder to crank out a profit. That's due to several reasons, but one of the chief complaints from gas retailers is the 2.5 percent they're charged by most major credit cards, including Visa and MasterCard.

As a result, station owners are looking for ways around the rising card costs, including offering incentives for cash payments and letting customers pay with a Texas driver's license linked to their checking account. Some stations are even pushing more customers onto their own branded credit card with a cheaper transaction fee. For drivers, it can mean discounts ranging from a penny to more than a dime for every gallon.

The gas-station struggle is unusual considering that the energy industry is one of the only economic sectors still pumping out big profits. The oil industry last year earned \$155 billion, of which 75 percent went to the five major oil companies, according to a government report prepared for Congress this year.

The problem is particularly acute in Texas, which leads the nation with about 10 percent of the 115,157 gas stations across the country.

Gas-station owners have grown increasingly upset that credit-card fees were more than twice as much as what they earned in pretax profits last year. Gas stations earned \$3.4 billion in 2007, while they paid \$7.6 billion in fees to credit-card companies, according to the National Association of Convenience Stores, based in Alexandria, Va.

"We are really talking about a situation where the cart is leading the horse," said Peter Guidi, vice president of sales for National Payment Card, a new company that is offering gas stations cheaper fees with its own payment-processing system. "You could argue that the credit-card company now owns the customer and the convenience store has become a stakeholder in their business. This is really backwards."

It's caused some gas-station owners across the country to stop taking credit cards. But that's harder to find in North Texas.

Daksha Patel, who has owned a Texaco gas station in Colleyville for the past decade, said it's not easy to just say "no."

"If I do that, then nobody would come," said Patel, who estimates that 3 of every 4 customers at her station pay with plastic. "Customers like to pay with a credit card."

The only way she'd stop swiping credit cards is if all other stations do it too, she said. "We cannot start now."

The squeeze

Gas stations are feeling the financial pinch from all over.

At the top, they're paying more for gas from the wholesalers because the price per barrel of oil has doubled over the past year. Somewhere in the middle, credit-card costs are growing as the retail price of gas goes up. On the bottom, gas stations can't pass on those increased costs to customers because drivers are much more price-sensitive.

A recent survey showed that 29 percent of consumers will drive 10 minutes out of their way to save 3 cents per gallon, according to the NACS. Therefore, gas stations feel increased pressure to bring their prices down to attract more customers, despite their higher costs.

After buying gas from the wholesaler and paying all credit-card fees, the retailer's gross margins are now at 4 cents per gallon. That's down from 7.4 cents two years earlier, according to NACS. Those margins are needed to pay for everything else, including employees and electricity.

"If things don't change soon, I think you're looking at a lot of second-generation and third-generation businesses that'll see the end of the line," said Jeff Lenard, a spokesman for NACS. "That's a shame."

Bill Douglass, chief executive of Douglass Distributing, testified before Congress last month that the number of gasoline retailers on the brink of bankruptcy is "now at a dangerous level." Over the past four months, Douglass said 10 of the dealers to whom he supplies fuel have had to give him the deeds to their business.

"My comments are not simply doom-and-gloom projections, they are fact," Douglass said in a written statement to a House Judiciary Committee task force. "They are so leveraged with their efforts to maintain adequate motor-fuel inventories, so burdened by low margins and high credit-card fees, that they simply have reached the point where they can no longer service their financial obligations."

Credit cards

The credit-card industry argues that retailers should pay a fee if they're going to enjoy the benefits of paying electronically.

The Electronic Payments Coalition, which represents the interests of credit-card companies and banks, said processing electronic payments actually save retailers up to 70 percent of the cost to process a purchase order. A 2003 study by RPMG Research showed that companies save \$23 billion annually by shifting from paper to electronic payments, the coalition said.

MasterCard capped its fees for gas purchases of \$50 or more, Sharon Gamsin, a spokeswoman for MasterCard, told The Associated Press.

The stores' ability to use MasterCard gives them "increased sales, greater security and convenience, lower labor costs and speed for their customers at the pump," Gamsin wrote in an e-mail.

Visa said in a statement to the AP that the fees are offset "by the tangible benefits to stations and their customers, such as the ability to pay at the pump."

Looking for alternatives

Gas stations are looking everywhere for alternatives to Visa, MasterCard and American Express charges.

National Payment Card, which is based in Florida, is working with a few stations to let customers pay for gas using their driver's licenses, which essentially work as debit cards. The magnetic strip on the back can be linked to a bank account, and a pin is required every time the license is used to buy gas.

The idea is attracting the attention of gas-station owners because National Payment charges a much smaller fee of 17 cents per transaction. Station owners use that savings to offer discounts of 2 cents to 12 cents to customers who pay using their driver's licenses.

The company has signed up at least 300 stations across the country and may even partner up with some in the North Texas area this year, Guidi said.

Instead of the driver's license, National Payment Card will also let gas stations come up with their own loyalty cards.

That's similar to what QuikTrip is trying to do.

The company is testing its own debit card that has cheaper transaction fees than Visa and MasterCard.

"We think it will make a difference," said Mike Thornbrugh, a spokesman for the Tulsa-based chain, which has 501 stores in nine states. "We're trying to be creative and hopefully get these rates down the best we can."