

Payment Alternatives Show Promise

Retailers work around expensive credit card processing fees while integrating rewards for customer loyalty.

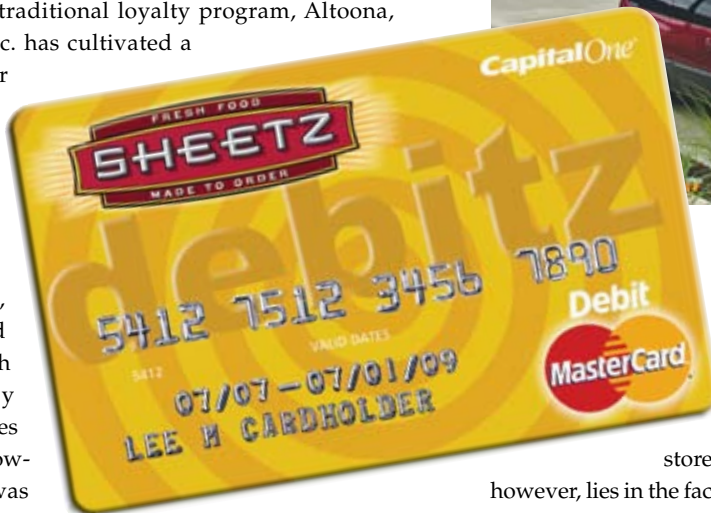
By Michael Ferrari, Staff Writer

DUE TO THE COMPETITIVE nature of the current convenience store climate, retaining a loyal customer base is more important than ever. But even when a store has a strong customer base, it can still be hurt by the excessive processing costs on credit card transactions that have become a frightening standard in the industry. Because of that, many retailers are finding new forms of payment that offer the rewards that come with loyalty programs as well as low transaction costs. The answer may lie in proprietary debit and credit card programs.

REWARDS FOR THE RETAILER AND CUSTOMER

Even without a traditional loyalty program, Altoona, Pa.-based Sheetz Inc. has cultivated a faithful customer base over the years. But like all retailers, the 337-store chain is losing valuable margins to high credit card fees. Like most stores, Sheetz accepted debit cards, which offer significantly lower processing fees than credit cards, however, the problem was convincing customers to use their debit cards. So instead of trying to lure customers into debit transactions, Sheetz decided to persuade its customers into making "Debitz" transactions.

"The difference between our Debitz card and a typical debit card that's issued by a bank is that our card offers consumers Sheetz rewards each time they use it," explained Richard Steckroth, director of business for Sheetz. "We wanted a way to offer customers an incentive for choosing to pay with debit cards."



The Debitz MasterCard, which Sheetz launched in June, is essentially like any other debit or check card. It's a signature-based card that takes money directly from a customer's checking account each time it's used, and can be used where all MasterCards are accepted in

stores, online or at an ATM. The key difference, however, lies in the fact that Sheetz has married a loyalty program to the card.

Each time a Debitz card is used within a Sheetz store, points are awarded to the user's account. Those points are then exchanged for rewards, offered in the form of Sheetz's "Z-card" gift cards. While Sheetz offers even more rewards for the card's in-store usage, the company still offers reward points for all other purchases made on the card.

To aid in the launch, Sheetz issued the card with Capital One, who developed a program that would make the Debitz

card an obvious answer to any transaction.

"We were looking to make a form of payment that would be ubiquitous in the customers' eyes," Steckroth said. "We didn't want to make a rewards debit program that could confuse the cardholder and force them to memorize the few limited locations where they could use the card. With the program Capital One set up for us, we're able to tie our card in with the MasterCard brand so the cardholder can use it anywhere and not have to remember where it can be accepted."

Steckroth credits Capital One, who he said established a unique program for the Debitz card.

"We began developing this debit product several years ago, but we first launched the product earlier this year," said Tatiana Stead, spokesperson for Capital One. "Sheetz was approached Sheetz as a partner because of their reputation as an innovator and their focus on building customer loyalty."

The product offered by Capital One brings a new approach to the loyalty/debit scene—one that has its own unique niche to fill, according to Stead. "We worked with Sheetz to design a debit program that works for them and their customers. We've offered co-branded credit cards in the past, but this patent-pending debit approach is unique," she said.

CLEARING THE HOUSE

While Sheetz is offering a new debit/loyalty program all in one package, other companies are using already existing loyalty programs to offer customers an entirely new form of payment. Waycross, Ga.-based Flash Foods' "Rewards in a Flash" loyalty program has been serving customers for the past two years, offering rewards such as cents-off gallons purchased in the store.

But now, by using Pinnacle Corp.'s Loyal Debit program, the company plans on combining the Rewards in a Flash program with a debit card that uses an automated clearing house (ACH) to process the transactions, bringing both the chain and its customers big savings.

"We're taking our already existing program and tying it to an ACH processor,"



"ON AVERAGE, CREDIT CARD PROCESSING FEES COST US APPROXIMATELY 62 CENTS PER TRANSACTION. WHEN WE USE THE ACH TO PROCESS THE FEES, IT COSTS US AROUND 15 CENTS. THAT ADDS A LOT TO OUR BOTTOM LINE AND GIVES US THE OPPORTUNITY TO REWARD OUR LOYALTY CUSTOMERS FOR USING THE CARD."

— JENNY BULLARD, CIO FOR FLASH FOODS INC.

said Jenny Bullard, chief information officer for Flash Foods. "Credit card processing fees are costing us a lot of money and by offering a debit card tied to our loyalty card, we can save money and pass those savings onto the customer."

Simply put, ACH is used to directly tie electronic services—such as e-bill programs and direct deposit—to a checking account. By using an ACH to process debit card transactions, Flash Foods stands to cut down a lot of its processing costs.

"On average, credit card processing fees cost us approximately 62 cents per transaction," said Bullard. "When we use the ACH to process the fees, it costs us around 15 cents. That adds a lot to our bottom line and gives us the opportunity to reward our loyalty customers for using the card."

Rewards in a Flash is very much a win-win for Flash Foods and customers. While the retailer saves money on processing fees, Rewards in a Flash debit card users

not only save cents on the gallon just for being a club member, they save an additional few cents on top of that for using their debit rewards card. Various in-store discounts are awarded as well. Flash Foods plans to launch the program chainwide in the fall.

AWAY WITH FEES

Shell Oil Products has been using a different approach for almost 15 years by introducing a program that allows customers to pay with a credit card at no cost to the chain's retailers or wholesalers: the Shell MasterCard.

Much like the Debitz card, the Shell MasterCard was created to offer customers a method of payment that could develop customer loyalty by offering 5% rebates on all Shell gasoline purchases and a 1% rebate on every other purchase. Even though the card functions like an ordinary MasterCard, Shell retailers do not pay any costs to process the transactions.

"We came up with this concept while we were looking for a way to differentiate ourselves from the competition and still build loyalty," said Carolyn Yapp, payments and loyalty manager for Shell. "The credit card world is an expensive place, and this card is a big benefit for customers and retailers. Customers can earn rebates without having to alter their spending patterns, and our retailers can accept a major credit card without having to worry about the high processing fees."

Along with the Shell MasterCard, which was given a revamp in 2003, Shell is also getting set to introduce its Real Time Rewards program, a loyalty plan that utilizes scan data to better reward customers. The patent-pending process uses the point-of-sale system to collect scan data from Shell MasterCard holders without actually requiring them to enroll in the program.

As customers buy products with their cards, the system tracks each purchase and randomly generates a reward based on their previous purchases.

"The rewards are generated on the spot at the register or gas dispenser, and immediately available for use," said Yapp. "There are tons of different rewards that can be offered. The retailers and wholesalers decide for themselves what rewards they'd like to offer and when, creating a customizable aspect that can better reward customers." **CSD**