

# Bypassing Credit

## New loyalty programs dodge credit-card trap

By Howard Riell

Call it a domino effect: The appeal of rerouting customers' use of credit cards to a proprietary loyalty card—one that puts part of the savings from cheaper processing fees back into customers' wallets—is winning over convenience-store chains one reputable name at a time.

In recent months, those names have included Wawa Inc., Wawa, Pa.; WESCO Inc., Muskegon, Mich.; and, more recently, Flash Foods Inc., Waycross, Ga.

"We let our customers change their loyalty card to an ACH [automated clearing house] payment. That enables them to use it at the [dispenser] and actually see the price rollback at the pump," says Jenny Bullard, CIO of Flash Foods. The change, she says, is part of an effort to "curtail the cost of processing credit and debit. We want to get away from the credit cards."

Though the chain just added the ACH piece in recent months, Flash Foods launched its loyalty effort two years ago as a result of soaring fuel prices that triggered shrinking fuel margins. "With the margins as they are today ... you've got to get the people inside; you've got to have that inside gross margin," Bullard says. It's working: The transaction amount on the loyalty card is \$1 to \$1.50 higher than

transactions without, she reports. "People are responding," she says.

R. Scott Hatfield, founder and vice president of corporate development for Tempo Payments, San Mateo, Calif., attributes part of the latest surge in loyalty buzz to interchange fees, a key culprit in high credit-card fees, which cost the c-store channel \$4,500 per store through last October—a nearly 23% increase over year-ago numbers, according to CSX LLC, Columbia, Mo.

"It's about the merchants having to fight harder and harder for market share, being upset with the interchange fees that the bank networks are charging, and trying to grab a hold of their own payments," Hatfield suggests. Tempo is a payment supplier of ACH-based transaction services and includes Wawa and WESCO as its clients.

WESCO, which joined Tempo last August, launched its own branded debit cards to customers at its 51 Michigan locations. WESCO combines the debit card with a consumer loyalty program that now automatically discounts gas prices at the pump for card users and in the future will incorporate merchandising promotions.

The company conducted its test at a pair of locations using a privately

issued debit card and found it could offer consumers relief from high gas prices while reducing the costs of traditional credit- and debit-card acceptance.

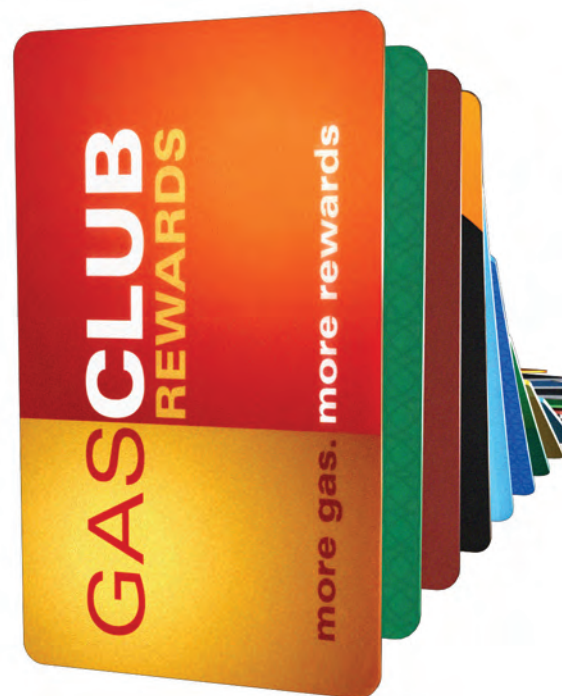
### Rise of Loyalty

However, Rob Little, vice president of marketing and sales for Minneapolis-based National Bankcard Service, says the success of top loyalty programs comes squarely from the consumer; that credit-card fees may fall somewhat is a nice byproduct, not a driver, he says.

"What's driving the 15% to 20% lift is basically the fact that you are taking existing customers who were brand-switching and shopping purely based on convenience—I'll never make that left turn, I'll never drive an extra half-mile—to 'I do make that left turn, I do drive an

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**ANTON BAKKER** *Outside Networks Inc.*





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**JENNY BULLARD** *Flash Foods*

extra half-mile to get my points at this particular location, which is thanking me for coming to their establishment.”

The loyalty bug has extended to travel centers as well. At El Paso, Texas-based Petro Stopping Centers LP, the company likes to run several bonus programs to “keep it interesting,” says marketing director David McClure. One such bonus program is based on a driver purchasing a minimum of 1,000 gallons in a given month. Once reached, the driver receives 1,000 bonus points.

“When we’ve opened new sites, or if business has been slow and we want to do something to stimulate [it], we’ve done double and triple points to try and drive fuel sales,” and it has proven effective, McClure says.

Petro also runs a second-tier program for “platinum” members, those who are the top 2% of its customers. Each receives a platinum-colored card and special perks such as free check-cashing and faxing, a free meal on his or her birthday, and access to a larger shower with added amenities.

### **Bolstering the Popularity**

While there are no firm numbers that track how many c-store and petroleum operators field loyalty programs, anecdotally, at least, formal customer incentives are on the rise. It is safe to say that the maze of technology, competition, the price of gas and cost of credit-card

processing fees together are pushing loyalty programs squarely into the national spotlight.

Little of National Bankcard identifies several factors behind loyalty’s surge in popularity. First is the technology now in place, “from POS that is capable of processing [them] to post-networks such as ours that are able to process them cost-effectively and flexibly,” he says. Another aspect, he says, is that communication network costs have receded. “So you can now run your loyalty program over a high-speed network,” he says. This convergence of critical technology and cost cuts, he says, means c-stores do not have to “sacrifice anything to customer traffic.”

Well-executed loyalty programs, Little says, can yield a 15% to 20% bump in top-line revenue. “That comes from two components: increased frequency of visits by each consumer and increased ticket sizes from those visits,” he says.

Adoption of technology across the c-store industry cannot be minimized, echoes Anton Bakker, president and CEO of Outsite Networks Inc., Norfolk, Va. “Integration with point-of-sale devices is pretty important for convenience-store operators,” he says. “Many c-store operators operate only a handful of stores, and for those people loyalty programs in the past were not really accessible. It was

mainly for the big-box operators like your grocery store chains and things like that. But now it has trickled down.”

### **Cautious Embrace**

“I think there were a lot of companies out there taking a wait-and-see approach, realizing that this kind of marketing is new to our industry and that there will be a lot of trial and error out there,” says Patrick Lewis, CEO of and partner with KickBack Points.

Lewis co-founded 14-unit, Twin Falls, Idaho-based Oasis Stop ‘N Go Convenience Stores in 1995 and KickBack Points four years later. He has also grown the KickBack Points Coalition Rewards Program into reportedly the largest U.S. coalition loyalty program.

There are, Lewis continues, “a lot more success stories in the industry now, and a lot of the programs have shown them that they can, in fact, have a positive impact on customer frequency and ticket averages. So it’s not as big a risk going in now.”

Stories like these have Lewis of KickBack Points convinced more than ever that the loyalty debate is over and the verdict is clear.

“There has been an educational process taking place over the last couple of years as well, and it’s really the outcome of the success stories: how they been able to leverage their loyalty programs to achieve specific results,” he says. “The jury is back on that.” ■

