



W. Capra Consulting Group
Payments and Site Systems Survey
PCATS Winter Meeting 2008

EXECUTIVE SUMMARY

W. Capra Consulting Group surveyed participants at the PCATS 2008 Winter Meeting. The objective of the survey was to gather insights from the retailers in attendance related to their near term payment and site system challenges and to assess industry trends.

The survey included the following questions:

1. Is your organization focused on optimizing acceptance costs in 2008?
2. Do you currently accept a low cost payment product (ACH¹, pin credit, etc.)?
3. Do you currently have a loyalty or rewards program?
4. Are your systems currently able to easily add new payment products?
5. What is your biggest barrier to implementing a new payment product or loyalty program?
6. How soon do you foresee your company accepting mobile payments?
7. What is the biggest site system challenge you face in 2008?

The following report contains an aggregate review of the survey responses along with insights from W. Capra and related industry metrics.

Survey Respondents

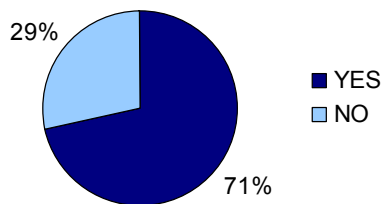
- Number of responses: 20 (14 retailer participants)
- Range of sites: ~10 sites to over 10,000
- Industries covered: Petroleum C-store and C-store

SURVEY AND ANALYSIS

1. Is your organization focused on optimizing acceptance costs in 2008?

71% of respondents acknowledge pursuing work efforts to minimize their acceptance costs in 2008 while 29% of respondents are not focused on acceptance costs in 2008.

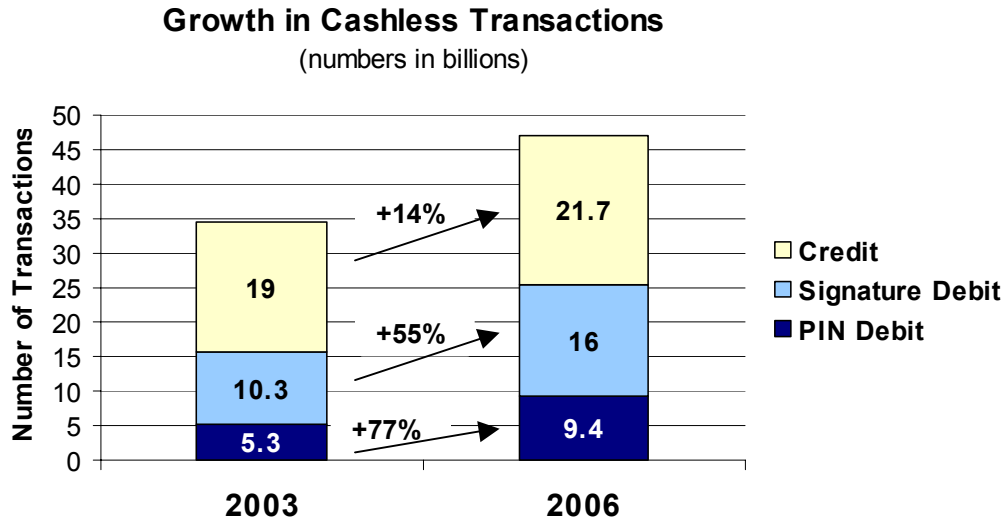
Is your organization focused on optimizing acceptance costs in 2008?



While defining and executing payment strategies to reduce total acceptance costs may not be applicable to all companies, W. Capra recommends that all Petroleum C-Store companies complete an analysis of their payment fees on an annual basis in order to understand their acceptance fee exposure and to define a baseline. The baseline and subsequent periodic analysis will provide an organization the capability to monitor the impact of the broader shift in payment products on the company's bottom line.

¹ ACH products typically have a per transaction acceptance fee such as \$0.15. ACH products work like a debit card in that they link directly to a consumer's bank account.

Acceptance costs will continue to increase as consumers move away from cash and the gasoline prices continue to increase. The following chart depicts the continuing growth in cashless transactions in the U.S. which reflects the dramatic growth in debit transactions.



Value of 2006 Transactions:

Credit: \$2.1 trillion
 Debit: \$1 trillion

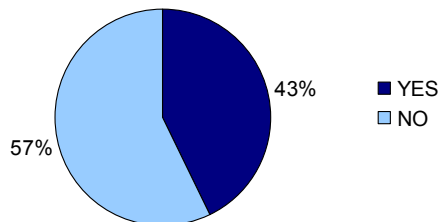
Source: 2007 Federal Reserve Payments Study, December 2007

2. Do you currently accept a low cost payment product (ACH, etc.)?

Slightly under 50% of the respondents currently accept some type of payment product that carries a lower acceptance fee than the normal debit or credit. These payment types may include:

- Private label cards
- Co-brand cards
- ACH products such as Tempo and National Payment Card
- Pin Credit (e.g., Revolution Money)

Do you currently accept a low cost payment product (ACH, etc.)?



Accepting lower cost payment types provides the opportunity to start chipping away at an organization's total acceptance costs. If your organization currently does not accept lower cost payment types the following are recommendations to start the process:

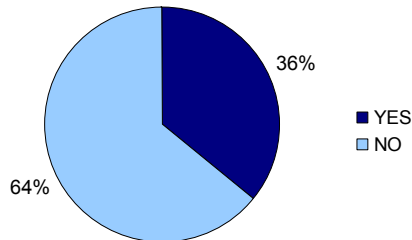
1. Request your processor to turn on Tempo Network (~\$0.15 per txn), Revolution Money (0.50% per txn), or other payment types.
2. Work your POS vendor on lower cost payment types. Your POS vendor may provide a connection to a lower cost payment network or may provide the capability of doing stored value programs that do not require processor fees.
3. If applicable, engage any Major Oils your organization works with for potential solutions.

As the payment landscape continues to evolve it will become more important for marketers to stay on top of the latest payment trends and ensure they accept all relevant low cost payment types.

3. Do you currently have a loyalty or rewards program?

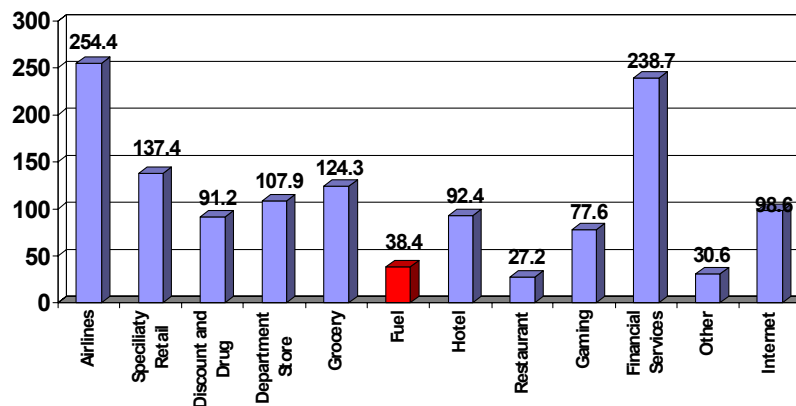
While loyalty programs are growing in popularity within the Petroleum C-Store industry, a majority of the PCATS retailers that participated in the survey are not currently offering a loyalty or reward program.

Do you currently have a loyalty or rewards



The limited amount of participation in loyalty and rewards programs indicated by the retailers attending the PCATS Winter session is consistent with the broader loyalty industry. Fuel programs account for only 3% of U.S. loyalty program members, the third smallest segment. While W. Capra expects the number of fuel loyalty members to expand significantly in 2008 and 2009 due to a number of industry programs, market saturation (similar to airlines) is not expected for some time. As the loyalty market is being defined there are advantages for the early entrants.

US Loyalty Program Memberships
(in millions)

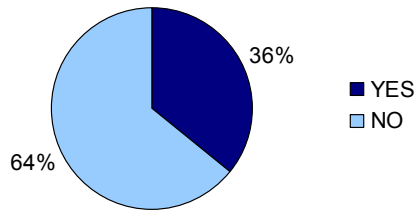


Source: COLLOQUYtalk / 04.07

4. Are your systems currently able to easily add new payment products?

While the first three questions were meant to assess the current status of the PCATS retailer participants, the fourth question was intended to see how well positioned some of the more forward thinking retailers are in the industry. **64%** of the participants are not able to easily add payments products.

Are your systems currently able to easily add new payments products?

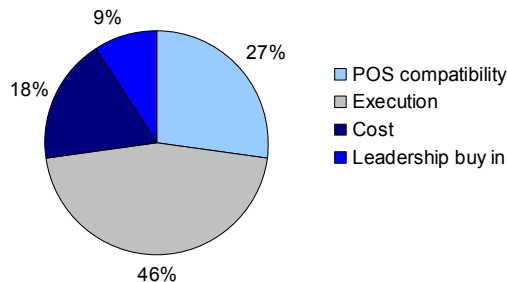


5. What is your biggest barrier to implementing a new payment product or loyalty program?

As a follow up question to number 4, W. Capra requested the survey participants to identify the major barriers to adding new payment products or loyalty programs. The following were the primary categories that were identified by the participants.

- **POS Compatibility:** Ability for a POS to add a new payment product / loyalty program or appropriately prompt for the card
- **Execution:** Ability for the organization to effectively manage all components of the new payment product / loyalty program including marketing, technology and operations
- **Cost:** Ability to define a business case to support the up front expenses and ongoing expenses and value propositions required for a successful new payment product / loyalty program
- **Leadership buy in:** Ability to help leadership understand the opportunity that resides in new payment products / loyalty programs and prioritize appropriate resources for strategy and implementation

What is your biggest barrier to implementing a new payment product or loyalty program?



The complexity of identifying, developing, integrating and executing new payment products and loyalty programs figure into all of the above barriers. To overcome these barriers W. Capra recommends the following steps:

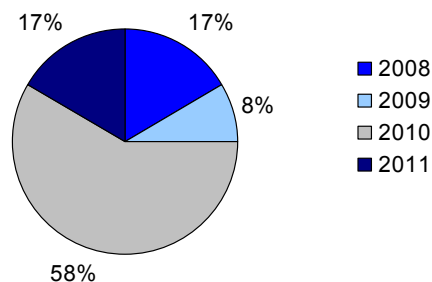
1. **Create a cross functional team to initiate the effort:** Have marketing, site systems, and treasury / finance define the scope of the effort. The more informed and aligned the cross-functional team is, the greater the likelihood of organizational buy-in and ultimate success.
2. **Identify short and long term goals:** Set realistic goals based on the current status of site systems infrastructure. This step should include selecting the products or programs that best fit the business objectives.
3. **Define technical and product roadmaps:** It is recommended to prioritize projects into an integrated roadmap due to strong dependencies between sites systems and payments.
4. **Execute:** Finalize contracts with the appropriate suppliers, create detailed cross functional plans, design, develop, test, pilot, deploy.

The pace at which the steps are executed will differ from organization to organization. Some organizations may select only to complete steps 1 and 2 to identify opportunities, risks and exposures within their payment strategies.

6. How soon do you foresee your company accepting mobile payments?

This question is related to an emerging payment method, mobile payments. While there are many different forms of mobile payments (including near field communications, text based, bar codes, etc.) the question did not specify the method and as such it was open ended for the respondents' interpretations.

How soon do you foresee your company accepting mobile payments?

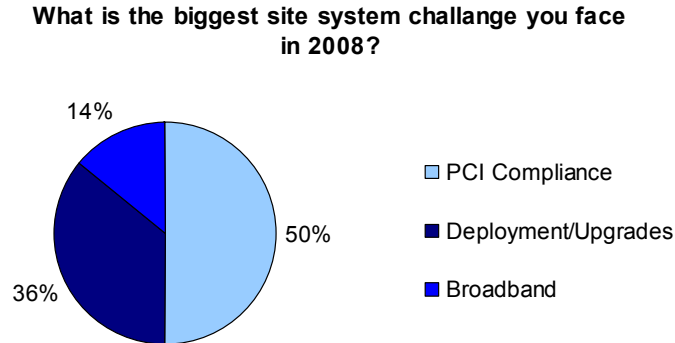


W. Capra believes that the timing of mobile payments will differ based on industry characteristics. Mass adoption in all industries will most likely not occur until at least 2009 or later. The adoption within the Petroleum C-store industry specifically will be impacted by the following factors.

1. **Maturity of the mobile payment model:** The model will continue to evolve in the U.S. as the phone providers, carriers, issuers, processors and application providers continue to test and refine the technology and model
2. **Forecourt integration:** Near field communication or other technology devices will need to be integrated to the forecourt devices which requires capital investments
3. **Organization priorities:** PCI, emerging loyalty programs and POS refreshes will continue to be the top payment investments in the next three to five years
4. **Association and bank strategies:** New industries with small percentages of cashless transactions will be the initial focus (e.g., QSR, parking, movie tickets).

7. What is the biggest site system challenge you face in 2008?

The last question posed by W. Capra was broader in nature and was asked to gain insights into the largest challenges that PCATS retailers are facing in 2008. The following were the responses.



The responses reflect the industry focus on achieving and maintaining PCI Compliance in 2008 which considered with the increasing business requirements for site systems are driving POS upgrades and replacements. PCI will continue to be a challenge to the Petroleum C-Store industry as requirements are added/clarified, new compliance dates are mandated and retailers continue to attain a better understanding of their current state of compliance. For additional information on PCI Standards please visit the NACS Website (www.nacsonline.com) and view the document "What should I do about PCI Compliance? ".

The second and third largest challenges for 2008, Deployment/Upgrades and Broadband, share similar characteristics. These challenges impact each site thus requiring a high level of testing and deployment coordination to minimize operational impact. Additionally, support procedures and vendor relationships almost always change thus increasing project complexity.

While there is no silver bullet for any of the above challenges, business interruptions and expenses can be minimized when the appropriate controls and processes are put in place. W. Capra looks forward to discussing and hearing about the successes that the PCATS retailers have in 2008 in overcoming these challenges.

ABOUT W. CAPRA

W. Capra Consulting Group is a professional services firm focused on identifying, leading, integrating and delivering technology and payment solutions to retail businesses. We are continuously engaged by industry leaders for our comprehensive knowledge of retail systems and the payment industry. Our Retail Technology Team and Payment Practice are comprised of individuals with real world experience who have worked for merchants, managing vendor and supplier relationships and building successful technology platforms and card programs. Our team is excited to assist the Petroleum C-store industry advance its business strategies via site and payment systems.

For further information on the survey or for more information on any of the topics please contact Doug Rodewald (drodewald@wcapra.com) or Terry Mahoney (tmahoney@wcapra.com).

For additional information on W. Capra please visit us at www.wcapra.com and to get further information on W. Capra's Payment Practice please visit us at www.cashlessgurus.com.