

MEMBER PROFILE: HI-NOON PETROLEUM

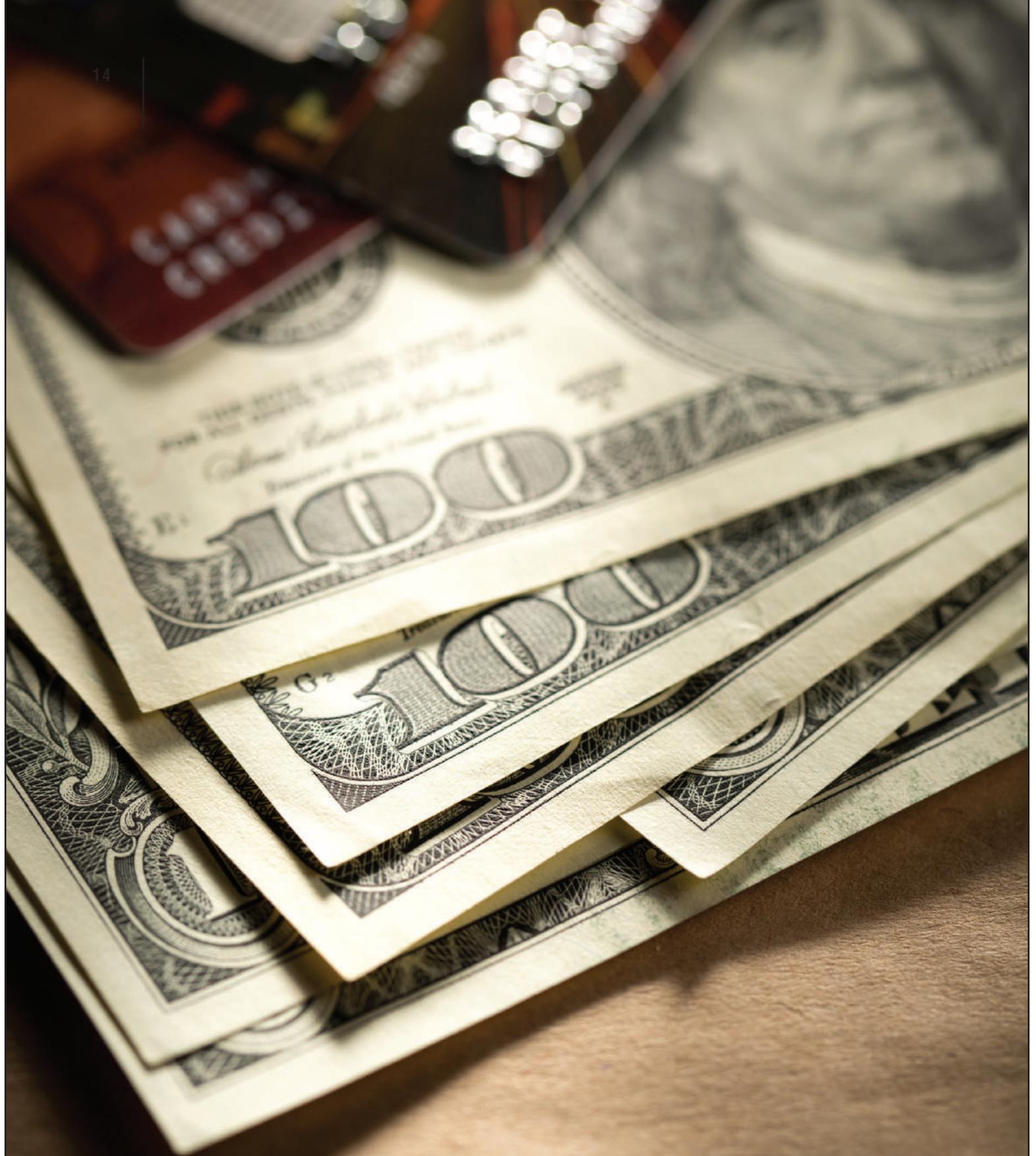
WASHINGTON WATCH: A REVIEW OF 2015
AND PREVIEW OF 2016

IS NOW THE TIME TO EMBRACE EMV?

THE GROWING ROLE OF THE U.S. IN WESTERN
HEMISPHERE OIL MARKET INTEGRATION

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IS NOW THE TIME TO EMBRACE EMV? Five Reasons that C-Store Owners and Retailers Should Make a Plan Now



This past holiday season, millions of consumers unwrapped a special delivery from their bank or credit card issuer – a new debit or credit card, embedded with a glinting gold chip that served as a harbinger for a new era in card payment security.

EMV implementation is in full swing in the United States, with more than 63 percent of U.S. cardholders having an EMV card in their wallets by the end of 2015, according to the Payments Security Task Force.

As consumers shred their mag stripe cards and learn the process of dipping – and then leaving – their EMV cards in the card reader, it won't be long until security conscious consumers make it a point of only doing business with retailers that offer the extra assurance of EMV.

Though fuel retailers have until October of 2017 to upgrade their pumps to accept the EMV cards and avoid the liability shift, the pressure to upgrade sooner – brought on by unyielding

headlines about card “skimming” and pump “hacking” – is quite real. Globally – in markets that have already implemented EMV – retailers who have deferred their upgrade have seen consumers take their business elsewhere in significant numbers.

“In our market, as consumers became aware of the EMV chip cards and their perceived higher security, they began to favor and look for fueling locations that had EMV card readers,” shares Bruce Allen, president of Canadian Tire Petroleum. The Canadian market moved to EMV payments more than five years ago. A number of other retailers have also observed similar situations of share shift in both Canada and Europe.

When one considers the mounting list of potential pitfalls for retailers with legacy equipment – the liability shift that comes with only accepting mag-stripe cards; potential share loss from security conscious consumers; and an increasing desire by consumers for added conveniences and upgraded technologies at the pump – the question is no longer whether or not to have a POS and dispenser technology upgrade plan, but when to implement it.

Jobbers play a unique role in this decision matrix – as one of the key partners that ensures the success of your dealers, you are well positioned to help advise your customers about the main considerations of an upgrade plan – as well as the risks of waiting. ►

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Here are the five considerations in making a decision for the optimal implementation schedule:

1. Equipment price increases: As supply for both EMV dispensers and EMV upgrade kits accelerates, it is likely that equipment prices will rise, as has occurred in similar demand spikes. Manufacturers are communicating price increases for 2016, and it is likely that we will see further increases in 2017 and 2018.

2. Technician shortages: Factory-trained technicians (ASC's) are, in most markets, already stretched to capacity. Most estimates are that technicians spend 80 percent of their time keeping equipment running, and about 20 percent on new equipment installs and upgrades. An increase in the demand for installs will push the capacity limits.

"All indications," said John Keller, Vice President at Petroleum Solutions in Texas, "are that demand for technicians will significantly increase through 2016 and 2017."

When installer bandwidth is maxed out, increased labor costs – both for overtime and to cover the training of new ASCs – will be passed along to the dealer.

3. Interest rate increases: The Fed is signaling that the days of historically low interest rates may soon be coming to an end. As we went to press, all indications are that rates will rise through out 2016. For C-store retailers that finance their gas pump upgrades, shouldering a 1 percent increase in borrowing costs can have the same impact as a 2.8 percent price increase.

4. Consumer share loss: In addition to offering the higher security of EMV payment, retailers are moving ahead with upgraded LED lighting, media screens at the pump, upgraded signage, and brand imaging— clear signals to consumers that they've implemented their next-generation marketing technology plan. Not simply the domain of the larger fuel retailers, grocers, warehouse clubs, and multi-state C-store retailers with private label fuel and a focus on food service, also have started upgrading their sites in 2015 and will continue in the first half of 2016.

Are you exposing your dealer sites to share loss?

5. Dealer supply contract gains: Jobbers can leverage significant benefits in helping their customers access needed financial resources to obtain both EMV and other upgrades. These benefits can be used to provide incentives to capture or extend contracts, and include:

- **Difference in tax rates.** Many retailers are in the 10 to 15 percent tax bracket, while jobbers generally are fully taxed at 39.5 percent. This creates a significant value difference in the capital cost depreciation benefit that has value to a jobber.
- **Difference in borrowing costs.** Jobbers often have a more established credit history than C-store dealers, resulting in their ability to borrow or finance equipment at lower interest rates than dealers. This difference, over a five-year lease, can generate significant interest savings. ▶



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We are at a unique point in the industry's history. The capital requirements for upgrades for payment technology and tank regulations are significantly higher than our traditional spend levels. These needs present a unique opportunity for jobbers to assist their dealers and to gain share—but also carry a high level of risk for those that remain on the sidelines.

I encourage you to not delay in understanding how EMV will impact your, and your customers', businesses. Making an informed decision is always the best path forward. **igm**

