The Perspective

PCI Compliance

Evolving Requirements for Mid-Market Merchants

The New Normal:

Keeping Balance and Momentum in Treacherous Times

State of the Industry

Update From NACS

Pinnacle Summit 2009 HOT Topics:

- **Implementing A Loyalty Program**
- **Savings From Electronic Signature Capture**
- **Benefits of Scan Based Trading**
- **Improving Fuel Margins**

Pinnacle Summit 2010

See You In New Orleans!

Finding bad apples has never been easier.

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Why is Gulfcoast the best choice for your retail solution? It works better. Our software acquires and standardizes data from multiple devices in realtime and lets you create and save rules that protect your operation. When rules are violated or exceptions generated, alerts are broadcast immediately to designated local and corporate staff for action.

The Gulfcoast Loss Prevention Software Suite Provides:

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- Nationwide hardware, software, and dealer support featuring 24-hour hot swap replacement guarantee.

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GULFCOAST

Gulfcoast Software Solutions, Inc.
Clearwater, FL 33755

(727) 441-2131
www.gulfcoastsoftware.com

PINNACLE NEWS

In This Issue

COMING UP...

New Faces

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Drew Flansburg,
Development Manager
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AUGUST						
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Date	Event	Location
AUGUST 17 - 19	CSP'S FOODSERVICE AT RETAIL (FARE) EXPO	Renaissance Schaumburg Hotel & Convention Center Schaumburg, IL
SEPTEMBER 14 - 17	PACIFIC OIL CONFERENCE	Grand Sierra Resort & Casino Reno, NV
SEPTEMBER 22 - 24	PCI SECURITY STANDARDS COUNCIL COMMUNITY MEETING	Mandalay Bay Resort & Casino Las Vegas, NV
OCTOBER 21 - 23	NACS SHOW	Las Vegas Convention Center Las Vegas, NV

From Bob's Perspective

This May we hosted our 19th Annual User Conference, The Pinnacle Summit, at the Hyatt Regency DFW Airport. With unprecedented client and partner participation, Summit 2009 proved to be a successful event. I strongly believe the most important aspect of this meeting is the networking with other clients, meeting our staff and getting to know some of our supplier partners. For those of you who attended, I sincerely hope that you agree.

If you didn't attend here is what takes place at Summit: As I mentioned above, the Pinnacle Summit provides the forum for our clients to talk to one another, sharing their insights and best practice tips on how they have utilized Pinnacle's software to maximize their business efficiencies and profits. We also have industry leading educational topics and content and top-notch speakers addressing key industry issues. Year after year at the closing of Summit we have clients expressing how much they have learned from their fellow clients, the speakers and the workshops. That is what makes our event so successful. If you have never attended Summit, I encourage you to join the ranks of Pinnacle Clients and experience the benefits for yourself first hand!

At Pinnacle, we strive to partner with our clients to facilitate relationships that are mutually rewarding. Summit provides us with the opportunity to prove that. We listen to your needs to ensure we develop the solutions you require to improve your margins, reduce your expenses and increase your bottom-line.

We also listen to the industry we serve, focusing on the development of solutions to address top industry issues such as escalating credit card fees, fuel price volatility and supply issues, consumer loyalty, real-time business intelligence, audit controls, and inventory management. Pinnacle Summit provides us with invaluable insight into these needs, allowing us to develop the software our industry demands and the automation solutions you need.

Please let me know how we can be of service to you and your business.

– BJ

Robert S. Johnson, President
bjohnson@pinncorp.com

Master of Ceremonies
Pinnacle Summit 2009

Honey Farms
MINI·MARKETS

David Murdock, Executive Vice President,
Honey Farms, Inc.

As Master of Ceremonies for Pinnacle Summit 2009, I was extremely pleased with this year's event, from the educational track sessions, to the dynamic General Session speakers and the outstanding networking opportunities. As an Executive of Honey Farms, Inc., a chain of 35 convenience stores, I oversee the day-to-day operations of our business and I know first-hand the value that Pinnacle's annual Client Summit has brought to me and the Honey Farm's organization.

I would like to thank those of you that attended Pinnacle Summit 2009. There will be no more challenging time in our market than right now and we all know that we have to become more efficient to maintain successful businesses. Pinnacle Summit provides an avenue to attain these goals and to see how others in our industry attain these goals through Pinnacle's software. We all attend the Pinnacle Summit to discover new ways to increase our bottom line. Not only is it a great time to learn about recent developments that Pinnacle has completed and what's upcoming, but more importantly it's a great time to learn how to use existing solutions more efficiently. A time to network with peers, Pinnacle staff, and partners to discover opportunities for improvement. Here are some of the keys things I took away this year:

- Benefits of **electronic signature capture**
- Savings associated with **scan based trading**
- How to implement a **loyalty program**
- **Loyalty** is not just about discounts
- Instrumental tips for **PCI compliance**
- How to reduce my **credit card fees**
- The importance of good **business intelligence software**
- Benefits of **Smart Buy™**

If you were unable to make it to Pinnacle Summit 2009, I'd highly recommend you consider attending next year in New Orleans to take advantage of these overwhelming benefits.

See you in 2010!

The New Normal:

Keeping Balance and Momentum in Treacherous Times

By Kevin Coupe, "The Content Guy," MorningNewsBeat.com

Seven years ago, Kevin Coupe bought a new laptop computer, rented office space above a tavern, and set out to prove that retail journalism could be provocative, exciting and even fun to read.

Today, MorningNewsBeat.com boasts more than 24,000 subscribers from all segments of industry and all over the world, and Kevin's quick, concise and unique brand of "news in context, analysis with attitude" – including a healthy dose of irreverence for sacred cows – has created a website that is a must-read every business morning.

In addition, Kevin runs Coupe Communications, a production company that specializes in business videos designed to help companies define and share big ideas with employees, customers and clients.

Even after more than 20 years of writing about the food business, Kevin likes nothing better than getting on a plane or behind the wheel of his aging convertible and traveling to someplace he hasn't been before, where he can eat the local food, taste the local beer or wine, and find out what makes the local retailers tick. He's reported from 45 of the United States and from some two dozen different countries around the globe. Kevin also has spoken at hundreds of conferences in the US and abroad.

The "new normal" is well on its way to becoming one of the catch phrases that we're all going to get sick of. It's in headlines everywhere, especially as pundits and consultants try to figure out ways to market their services around a phrase that has more alliteration than meaning. The essential question is this: when the recession ends, will consumers persist in the changed behavior patterns – a kind of new frugality - that an economic downturn has prompted?

The simplest answer is this: **Who knows?**

Pictured at
Pinnacle Summit 2009

Pictured at
Pinnacle Summit 2009

From Left to Right:

David Murdock (Executive Vice President, Honey Farms, Inc.), **Kevin Coupe** ("The Content Guy," www.MorningNewsBeat.com), **Bob Johnson** (President, The Pinnacle Corporation)

It is dangerous to think about the American consumer as part of a homogeneous group with predictive behavior. Really, really dangerous.

I'm not at all sure that people today are going to carry the scars of recession in the same way that so many of our parents could be described as "Depression babies." Some will, some won't. At MorningNewsBeat, I've gotten more than few emails from people who offer some variation on the sentence, "I can't wait to be rich again." Those folks, I'm guessing, have short memories.

We also have no idea how the younger generation of consumers – you know, the ones who don't remember a world without Google and Amazon and iPods, and whose behavior reflects easy access to information and a sense of entitlement to a life that lives up to their expectations and ideals –will react to the economic tumult they see around them. So we cannot predict their behavior. There simply is no blueprint from which to draw judgments.

But rather than obsess about the permanence of recession scars, retailers (and their product and service providers) ought to remain cognizant of all the various influences that have the ability to change shopper behavior.

Let me offer a quick take on four of them:

Nutrition Issues.

As more and more regulations make it into the books in this area, and we deal with a federal Food and Drug Administration (FDA) that is both more empowered and active than it has been in years, retailers are going to have to work their way through a minefield of laws and consumer preferences. Already there is some backlash, and debate about the role of the "nanny state." For me, I think it is all about making a plethora of choices available to shoppers – and sufficient information with which to make intelligent choices.

One example: I love the laws that require chain restaurants to post calorie counts for all their menu items. I can't tell you how many times I've been tempted to buy something that I seem to have developed a craving for, and have changed my mind when I saw the calorie count. I know that isn't necessarily good for short-term sales numbers, but keeping me alive longer actually is good for business. Besides, it'll get stores to offer more nutritious options, which could be good for business.

1

Food Safety.

This is an area to which everyone in the food chain needs to pay close attention, because consumer trust is eroding slowly but surely with every headline about this recall or that contamination. The worst of it was when we discovered that Peanut Corp. of America had been shipping contaminated product with what appears to be full knowledge of the contamination – the first time in my memory that a manufacturer was accused of deliberate negligence. No matter how active the FDA becomes, this is going to continue to be a big and developing story, and almost nothing about it is good for the food business.

2

Which is why I think the industry needs to adopt – and embrace – a philosophy of total transparency. Follow the example of the Greek olive oil company that makes it possible for consumers to type in a code number on the back of every bottle and see where the olives were harvested and pretty much every scintilla of information you could possibly need to know about it. This is the future…you might as well go there.

Private Label Growth.

Lots of discussion about this segment, mostly because the economic downturn has sparked a lot of shopper interest – in the US, we're seeing private brand distribution that looks more like Europe. This may or may not continue when prosperity returns – but that's up to retailers and their private brand providers. If the quality is good and the store markets these products as part of a broader store brand strategy, then they will continue to grow along with the higher margins that they bring. Take them for granted, and things will go back to the way things were.

3

Generational Differences.

4

I referred above to an entire generation that does not remember a world without Google and Amazon and iPods. Understanding how this generation thinks and feels, and what its rules of acquisition are, is critically important for companies mapping out a long term strategy for growth and relevance. Think about your own kids…and start asking them questions about what they want out of the retailing experience.

I actually think it is pretty simple. They want what they want, when they want it, where they want it, how they want it, at a price that they think is appropriate.

Figure out that formula, and the future is in the palm of your hands. This is the "new normal" that retailers and manufacturers need to be planning for. ●

IMPLEMENTING A LOYALTY PROGRAM?

KEEP IT SIMPLE, KEEP IT FRESH.

Implementing a Loyalty Program and working with Marketing to enact the plan is an arduous process. So what is the secret to success? Keep It Simple! Keep It Fresh!

First, you need to plan out your Loyalty Program. Determine the specifics of your marketplace. You need to consider demographics, competing stores in the area, competing brands, and your customers' perceptions of your own brand. Next, you should define the parameters of your Loyalty Program, including the name of the program, images, logo, program model, as well as vendor and support sponsorship.

Once the planning stage is complete, it's time to launch the program. Your new Loyalty Program must be your sole marketing focus. You will need to do all store preparations, employee education, media blitzes, distribute loyalty cards, and do a soft launch in one or two stores to iron out any last minute details you may have overlooked.

Now that your Loyalty Program is launched, focus should shift to your In-Store Marketing.

Once time passes, you need to evaluate your Loyalty Campaign and make necessary adjustments based on the programs results. You need to determine the overall consumer reaction to the program, the promotions performance, performance of loyalty promotions versus standard temporary price reductions, overall store performance, redemption statistics and fuel sales. The information collected when making these determinations should help you shape future promotions with your Loyalty Program.

Remember to keep it fresh! Change your promotional messages periodically, update your graphics, alter rewards, make seasonal adjustments and respond to changing demographics in your marketplace. All of these initiatives will help ensure the long-term success of your Loyalty Program. ●

Don't Forget!

- **Employee Participation and Enthusiasm**

- **Sign Placement, Stand-up Signs, Counter Signs, Aisle Violators, Danglers, Logo Decals**

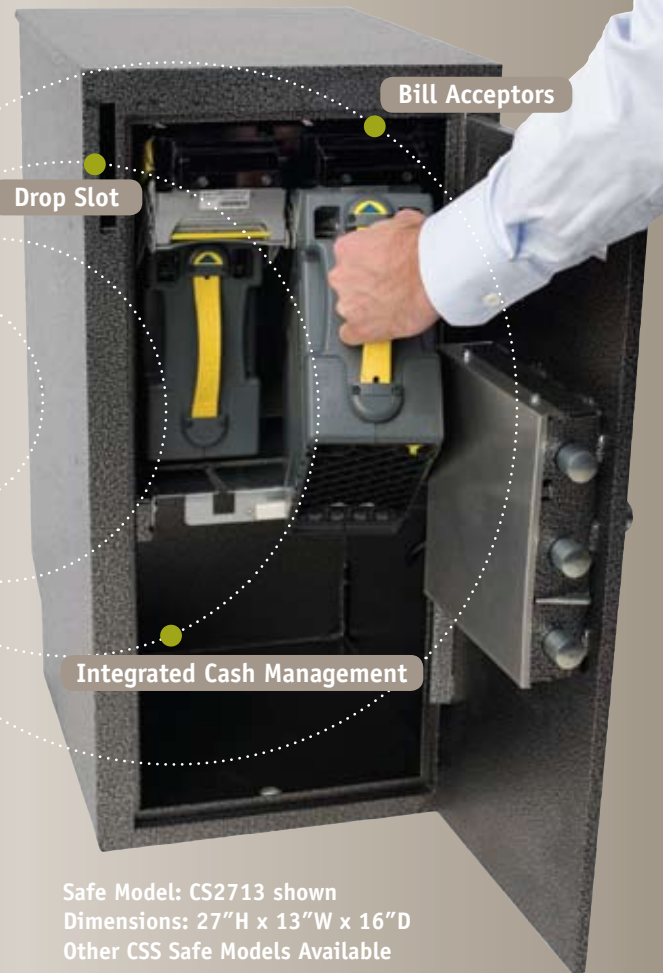- **Brochures**

- **Balloons & Buttons**

Karen Campbell, Director of Marketing, Honey Farms, Inc.

Palm POS™ and Safe Integration

FULLY INTEGRATED POS AND SAFE SOLUTION ENABLING COMPLETE CASH FLOW MANAGEMENT

Bill Acceptors

Drop Slot

Integrated Cash Management

Pinnacle's Palm POS™

Safe Model: CS2713 shown
Dimensions: 27"H x 13"W x 16"D
Other CSS Safe Models Available

- Single point of control for cash flow – Accept, validate and secure cash in a single integrated system

- Employee self-service – Increased productivity with direct, authenticated and traceable employee deposits through a single, easy-to-use touch screen interface

- Increased visibility – Consolidated loss prevention reporting includes cashier details and safe events to support accountability audits

- Modular flexibility – The flexibility to work within any infrastructure and with a variety of peripherals and applications

To learn more, contact a CSS representative today at (800) 342-3033 x333.

PINNACLE CORPORATION

CSS CORPORATE SAFE SPECIALISTS

Security » Innovation » Service
www.corporatesafe.com

Single Point of Control for Palm POS™ and Safe!

Corporate Safe Specialists and The Pinnacle Corporation have joined forces to take cash management processes to a new level. Pinnacle's Palm POS™ is directly interfaced to CSS's suite of Advanced Cash Control Systems, enabling a clerk to accept, validate and secure cash directly into a business-rated safe. Both systems are controlled through a single easy-to-use touch screen interface and run off a single computer, freeing up precious retail space and lowering overall equipment expenses.

This innovative technology advancement will increase staff productivity in the most cost effective means possible. The solution provides an integrated cash management capability, increasing visibility while allowing for easier training for clerks by only having to learn a single system for accepting payment and securing the cash. The solution greatly simplifies the process of keeping the proper balance of funds in the till while reducing the exposure of the business.

Pinnacle and CSS Deliver a Complete Solution

Cash management solutions are built on a secure, integrated platform to meet the needs of today's businesses. They are built around a POS and business-rated safe that all retail transactions and provide a secure repository for cash. The safe's drop slot allows staff to easily and quickly make deposits directly into a secure inner compartment without having to access the main compartment of the safe. CSS employs the best bill acceptors in the industry, and they are armored-car ready.   The bill acceptors can consistently and accurately read all denominations and provide automatic counts of money received, while protecting against counterfeit currency. With the drop slot and bill acceptors, the safe door is opened less often.

The end result for retailers is increased productivity, reduced equipment expense, and simplified training of staff.

Cash received into the safe is secure until removed to make a bank deposit by either an armored-car service provider or an authorized staff member. Access can be granted and monitored remotely to aid in enforcing business rules and identifying procedure violations.

These features directly reduce the threat of theft, shrinkage, and counterfeit currency!

The ability to accept cash in a secure, closed-safe environment also enables productivity gains. Retail staff can spend more time with customers, since they spend less time conducting cash transactions, transferring cash from the point-of-sale to the safe, counting cash in preparation for a bank deposit and reconciling discrepancies when counts do not match receipts.

Importantly, this complete solution is backed by outstanding delivery, installation, training and service programs.

Together Pinnacle and CSS enable you to take retail cash management to the next level in a single integrated system. ●

ELECTRONIC SIGNATURE CAPTURE

SAVE PAPER, SPACE, AND MONEY

Electronic signature capture is rapidly being implemented throughout our industry, and most of the time if it's not available, customers will ask for it!

Pinnacle provides a turnkey solution for electronic signature capture at the store level, and corporate reporting back at the home office which allows you to recreate receipts on the fly with the customer's signature. This feature reduces time and dollars associated with paper receipts, sorting, storing and retrieving when disputes arise, and lost dollars when physical receipts cannot be found.

Visit the Palm POS™ page on Pinnacle's website (www.pinncorp.com) to find a calculator to compute the Return on Investment associated with implementing electronic signature capture using Pinnacle's Palm POS™, Ingenico advanced signature capture enabled payment terminals, and Pinnacle's EPM™ business intelligence solution. This cost savings calculator uses actual numbers from a real c-store retailer and was used to validate their electronic signature capture investment. This ROI does not take into account the

- **Hands-off payment process**

- **Reduce storage space needed for all that paper**

- **Easy to retrieve data**

- **Easy to research transactions**

- **Cashier can re-print customer receipts**

- **Time=$$**

physical storage savings, another element you might consider when looking at the benefits associated with eliminating paper receipts. ●

Original Presentation by John Marti, Kwik Trip, IT Retail Systems Development

PCI Compliance...

Evolving Requirements for Mid-Market Merchants

By Rick Dakin, President and Co-Founder, Coalfire Systems Inc.

The Payment Card Industry (PCI) requires every merchant to maintain compliance with the PCI Data Security Standard (PCI DSS). Methods to validate compliance with the PCI DSS have been emerging over the past five years. Initially, Level 1 merchants (with more than 6 million transaction per year) and service providers were required to validate compliance through a Report on Compliance (ROC) performed by an independent auditor or Qualified Security Assessor (QSA). Since December 2007, Level 2 through 4 merchants representing small and mid-market retailers have been required to validate compliance to the PCI DSS through quarterly external vulnerability scans and a Self Assessment Questionnaire (SAQ). However, many merchants are still struggling to establish both a PCI compliance program as well as consistently and accurately report compliance status on an SAQ.

Compliance Background

Rick Dakin co-founded Coalfire and is a Senior Security Strategist. He brings 20 years of system integrations, application hosting, and mission critical security management to the team. He was previously the Chief Operating Officer for a global application hosting company with secure data centers located in Europe, Asia, and the U.S. He managed outsourced mission critical operations for companies with combined annual revenue in excess of $3 billion. He was also a significant contributor to the U.S. Postal Service bio-terror attack case study submitted to the U.S. Congress.

Mr. Dakin is a nationally recognized authority with respect to the Payment Card Industry Data Security Standard. Mr. Dakin is a Qualified Security Assessor (QSA) and has spoken at numerous industry conferences, webinars, and forums regarding risk mitigation, data security, and theft involving payment card data. Mr. Dakin is the former President of the Denver chapter of InfraGard, a group from the information technology industry and academia which supports the FBI's investigative efforts in the cyber arena. Mr. Dakin was recently named a recipient of the F.B.I.'s 2006 Citizen Award for his efforts in IT security.

Mr. Dakin is a graduate of the U.S. Military Academy at West Point, and he holds an M.B.A. from the University of Oklahoma.

protection and the expectation for comprehensive validation of compliance. Effective December 31, 2010, Level 2 merchants (those retailers that process between 1 and 6 million transactions each year) must validate compliance through onsite testing performed by a Qualified Security Assessor (QSA) company and report compliance validation on the more rigorous Report on Compliance (ROC). While the testing and control validation becomes much more stringent, Level 2 merchants may lack the staff, processes and resources to implement, maintain and test the controls at a level to achieve compliance with the assessment procedures in the ROC.

Unlike larger Level 1 merchants, mid-market organizations do not have the resources or organization structure to layer a new enterprise governance and compliance program without significant additional investment. Accordingly, many mid-market merchants have been accepting the risk associated by failing to accurately and thoroughly validate compliance to PCI standards by attempting to complete their SAQ without assistance. In many cases, the acceptance of risk is not understood due to misunderstanding of what the PCI Data Security Standards truly require and the level of documented evidence necessary to validate compliance.

On June 15, 2009, MasterCard raised the bar for PCI compliance validation to a level that puts more distance from the current state of cardholder data

> *MasterCard continues to raise the bar for validating compliance to the PCI Data Security Standard by requiring* **Level 2 merchants** *to validate PCI compliance through on-site assessment by a QSA.*

In addition to the compliance reporting risks faced by mid-market retailers, industry reports indicate that over 80% of all reported cases of data breach occur at Level 4 merchant locations. A 2007 Ponemon Report estimates the cost of data breach averages more than $180 per lost record, which places those merchants at significant financial peril. If a level 4 merchant loses just 1,000 cardholder records, the fees and penalties could exceed $200,000. Unfortunately, merchants that previously validated compliance to the PCI standards were still compromised and suffered significant data loss. Bob Russo, Managing Director for the PCI Security standards Council, routinely confirms that no fully PCI compliant merchant has ever suffered a data breach.

PCI Compliance Solution for Mid-Market Merchants

Coalfire Systems offers a comprehensive package of low-cost services designed to help mid-market merchants comply with the PCI DSS Report on Compliance (ROC) and Self Assessment Questionnaire (SAQ). Our services are designed to provide merchants with a streamlined and cost effective solution for validating PCI compliance.

Our Navis PCI platform is a self help solution that guides merchants through pre-assessment activities much like "Turbo Tax". Packages include:

Online Compliance Portal for control management, evidence tracking, and reporting

Self help online audit advice

Resource libraries of templates, policies, and other documents required to validate PCI DSS control activities

External Quarterly Scans to satisfy network scanning requirements

Dedicated QSA support to provide guidance and/or on-site testing depending on merchant level

RapidROC
for Level 1 & 2 Merchants

- Rapid ROC Compliance Portal w/ pre-loaded audit evidence for Pinnacle POS software
- Quarterly External Network Scans
- Dedicated QSA offsite support
- On-site Testing and Control Validation
- Completed Report on Compliance (ROC)
- Qualified Security Assessor (QSA) attestation for Confirmation of Report Accuracy (CORA)

RapidSAQ
for Level 3 & 4 Merchants

- Rapid SAQ Compliance Portal with evidence collection and storage
- Quarterly Vulnerability Scans
- Dedicated QSA offsite support
- QSA review of completed SAQ and evidence
- QSA opinion on program strengths and weaknesses
- QSA sign-off on SAQ

The Coalfire Advantage
Rapid. Thorough. Comprehensive.

Coalfire provides cost-effective compliance packages to help merchants satisfy PCI control testing and validation requirements. As a trusted compliance partner with Pinnacle, Coalfire understands your payment systems, architectures, and compliance requirements: we have the knowledge you need to support PCI compliance quickly and accurately.

CALL FOR A LOW FIXED COST QUOTE AND LIVE DEMO!

Colorado | Washington | New York | California | 877.224.8077 | www.coalfiresystems.com

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Justified Approach to Achieve PCI Compliance

Pinnacle has long anticipated the need to integrate security and specifically, PCI compliant features, into its products. In 2006, Pinnacle initiated a program to update Point of Sale (POS) systems to make PCI compliance more achievable at the merchant level. To accomplish its goals, Pinnacle submitted Palm POS 9.2 to Coalfire Systems for testing and payment application certification under the Payment Application Best Practices (PABP) program. Pinnacle made significant investment in its core platform and achieved compliance with stringent PABP requirements in 2007.

Continued investment in security and PCI compliance features provide merchants with a more streamlined path to merchant compliance with the PCI Data Security Standard (PCI DSS). Merchants verify that they have implemented access controls, logging, encryption and other PCI controls in accordance with the Pinnacle Implementation Guide for payment applications to validate compliance to PCI requirements associated with those controls. The remaining hosting and operations environment, staff and facility based controls complete the merchant level compliance validation testing and reporting.

Pictured at
Pinnacle Summit 2009

To leverage the Pinnacle compliance investment, Coalfire has developed a PCI Compliance Portal, called Navis Rapid ROC and Rapid SAQ, to guide merchants through the PCI testing and reporting process in collaboration with a dedicated Qualified Security Assessor (QSA). The portal includes inline self help guidance as well as recommendations on the control evidence that should be documented to demonstrate compliance with specific PCI requirements. The combination of a "Turbo Tax" like self prompting compliance tool with Pinnacle control guidance included in the system Implementation Guide provide the most efficient path
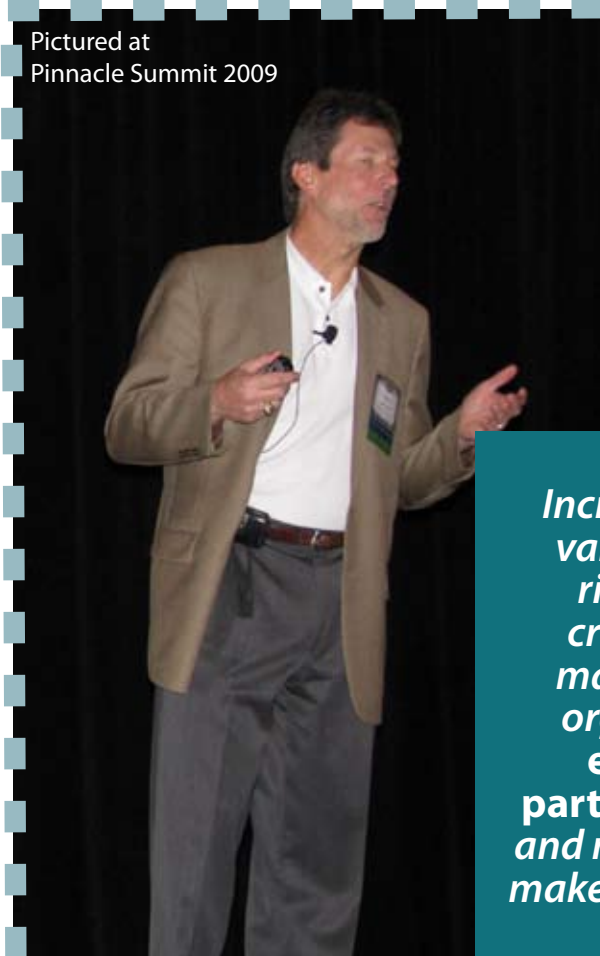
Increasing expectations for validation combined with rising costs of incidents create new risks for mid-market merchants. These organizations need **cost-effective compliance partners** *that can help assess and manage risks in ways that make sense for the mid-market merchant.*

for merchants to validate PCI compliance. More important, merchants working closely with their payment application vendor, Pinnacle, obtain a much higher probability that PCI compliance can be sustained.

Benefits

The Navis Rapid ROC and Rapid SAQ programs build off the investment Pinnacle has made to verify that its payment applications comply with the Payment Application Best Practice guidelines. Coalfire has validated the application level controls and can assist merchants in documenting merchant implementation of those controls in the Navis compliance portals.

Pinnacle made early investments into the PCI compliance of their POS solutions and has established a strong relationship with their QSA-C. These investments allow Pinnacle customers access to knowledgeable PCI resources, portal-based evaluation tools, and risk management services.

For a low fixed price, the Navis platform delivers a proven path to PCI compliance along with the following benefits:

- Streamline the PCI compliance management and reporting process through a self prompting web based tool

- Enhance the thoroughness of testing to truly validate compliance and provide evidence to prove compliance in the event of a subsequent data breach

- Reduce the cost and effort to maintain and report PCI compliance to the acquiring bank

- Reduce the risk of potential compromise and associated expenses and brand impact

- Provide access to live QSA resources for assistance in evaluating and developing PCI program controls

- If on-site testing is required by a QSA, obtained a low fixed rate for compliance validation testing and reporting since Coalfire will leverage the evidence already collected on the Navis PCI Compliance Portal •

SCAN BASED TRADING

A DISTINCT COMPETITIVE ADVANTAGE

In an industry where competition is fierce and margins are slim, you need a sustainable competitive advantage.

Pinnacle's Scan Based Trading application eliminates supply chain inefficiencies and helps retailers and suppliers get products to the store shelves quickly and profitably, providing retail trading partners with a distinct competitive advantage.

With Scan Based Trading through Pinnacle's Symphony. enterprise performance management (Symphony. epm™), retailers have seen substantial gains in operational efficiencies. The idea is simple: Rather than paying for products from suppliers as they are brought into your store, the supplier retains ownership of the products on the shelf until they are sold. When items are sold, the scanned

- **Increase sales**

- **Reduce inventory costs**

- **Reduce invoice/order processing costs**

- **Gain daily insight into product movement**

- **Reduce out-of-stocks**

- **Ensure accurate inventory replenishment**

information is sent automatically from the retailer to the supplier. The scanned sales information is then used to generate payment for those items from the retailer to supplier.

Visit the Symphony.epm™ page on the Pinnacle website (www.pinncorp.com) to calculate the benefits of converting a portion of your merchandise vendors away from traditional invoicing procedures to a solution where you pay for what you sell based on scan sales data using Pinnacle's Symphony.epm™. ●

"We're eliminating about **65,000 invoices** *a year from coming upstream from our stores...that's around* **$750,000** *in annual savings."*

- Todd Roberge

Todd Roberge, Price Book Manager, WilcoHess, LLC

NACS State of the Industry Update

A Look Back, A Look Ahead...

By Michael Davis, Vice President, Member Services, NACS

L et's face it, the c-store industry puts up with more crap than any other retail channel. If we're not getting hit with steep increases in credit card fees or new mandates, then we're on the short end of governmental regulations that directly impact our businesses (i.e. FDA control of tobacco). The rest of the world thinks we are making a killing off of selling motor fuels, when in reality our customers are driving to hell and back just to save 40¢ on a fill up.

Industry Snapshot

There are currently an estimated 145,000 stores operating in our industry – that's 50,000 more than all of the warehouse clubs, supercenters, dollar stores, mass merchandise stores, supermarkets, and drug stores combined! Over 90,000 of our stores are run by single store operators.

With 160 million transactions per day, our 2008 sales totaled $624.1 billion – over 4% of the US GDP.

An estimated 98% of Americans shop at c-stores at least once a month, and we sell 80% of the motor fuel sold in the US.

Our industry employs over 1,700,000 workers on the retail side alone.

According to Nielson, our customers fall primarily into one of several categories…

Over the last 5 years in our industry, credit card fees have increased over 160%, from $3.2 billion in 2003 to $8.4 billion in 2008.

	2007	2008	% Change
Industry Stores	146,294	144,875	(1.0)%
Industry Sales	$577.4B	$624.1B	+8.1%
Industry Pre-Tax Profit	$3.4B	$5.2B	+54.2%
Credit Card Fees	$7.6B	$8.4B	+10.5%
Number of Employees	1,714,300	1,727,700	+0.8%
Fuel Pool Margin (cpg)	14.6¢	18.0¢	+23.3%

The US has the highest interchange rates in the entire world, and as our industry was still coping with the affects of the unthinkably high gas prices we saw last year, our interchange rates increased to over 2%, totaling nearly twice as much as the next highest country on the list (India at 1.10%).

In 2003, our industry's pre-tax profit exceeded credit card fees by 25%; but by 2008, credit card fees towered over pre-tax profit by over 62%!

Nielson's Customer Categories

- Lower income households
- Single households
- Households without children
- African American households
- Struggling urban, modest working towns & rural living
- Blue collar & currently not in the workforce
- All age households and male only households

Consumer Trends

Two of the most crucial segments of the c-store target market are "Generations X, Y, and Beyond," and the "Baby Boomers". These segments can vary significantly in terms of buying patterns and brand loyalty, and it is important to understand the motives driving their behaviors.

Generations X, Y, and Beyond

- **Birth year:** 1977-2002
- **Age:** 4-29 years
- **Cultural influences:** MTV, dot-com bust, September 11, Iraqi War
- **Brand Loyalty:** Measured in days

- Teens tend to buy small amounts of gas frequently – 10, 15, even 20 times a month
- Over 60% of teens say they stop at convenience stores to "use the restroom"
- Clean restrooms strongly influence where teens buy gas
- Teens who purchase food prepared in the store or branded fast food are likely to want to use the restroom
- Teens revealed through a survey that being denied access to restrooms was a significant issue for them
- Convenience teens have grown up with what many of us consider to be advanced technology
- Teens expect a threshold level of technology that accommodates their "access anytime, anywhere" devices and routines

Baby Boomers

- **Birth year:** 1946-1964
- **Age:** 42-60 years
- **Cultural influences:** The 1960s, Vietnam War, Kennedy Assassination, Woodstock
- **Brand Loyalty:** Measured in years

- First "me" generation – driven by wealth and success
- By the end of this year, this segment will reportedly spend $3 trillion a year
- While mostly "brand fixed," they are still just as likely to switch brands as younger buyers
- 33% of consumers older than 50 believe it is "risky" to buy an unfamiliar brand (36% of consumers age 16-34, and 30% of consumers age 35-49 agree)

Industry Shifts

In the last three years, over 200 convenience and petroleum retailers were acquired, totaling more than 6,000 stores. It seems larger operators are getting larger, while small to mid-sized operators are choosing to sell due to increased competition and regulations, little to no business succession opportunities, and enticing bids from larger companies. Companies like 7-Eleven and am|pm are moving to total franchise models, and major oil companies are divesting company owned and operated sites to chains and jobbers. For dozens of companies, fuel replacement costs and credit card fees have simply driven them out of business altogether. While there are new opportunities for entrepreneurs to enter the marketplace, there are still great issues for wholesalers and technology providers.

Pictured at
Pinnacle Summit 2009

Independent Operator Profile
(From the NACS Dealer Study, 2006-2008)

- Consolidation and divestiture have created opportunities for New Americans to operate convenience stores
- Influx of immigrants to the industry (India, Pakistan, Korea, Egypt, Jordan, Lebanon, Iran, Eastern Europe)
- Many are college educated, have previous business ownership experience, or both
- Most had little to no understanding of fuel marketing when entering the business (…other than US-born "mom & pops" who grew up in the business)

A Look Ahead...

Although it has been a rough year, we are bound to see some bottom line improvements. As consumers become more time-starved, they will look to us for convenient solutions for their ever growing demands. It is up to us as an industry to increase visibility and stay relevant within the consumers' minds. ●

Michael Davis is currently the VP, Member Services at NACS, The Association for Convenience and Petroleum Retailing, responsible for providing products, services, information, and advice to its 2,000 retail and 2,000 supplier members. Mr. Davis spent a total of 14 years with retailers such as Toys "R" Us, Gap, The May Department Stores Company, and Jewel Food Stores. He has over 15 years retail and consumer products management consulting experience with Clear Thinking Group LLC, KPMG Consulting, and Deloitte and Touche. He also was a former NACS Retail member having spent 10 years as the owner|operator of MichaelAngelo's & More, a convenience food and beverage store in Laurel, DE.

NACS®

• Founded in 1961
• More than 2,000 retail member companies
• More than 2,000 supplier member companies

Pictured at
Pinnacle Summit 2009

SMART BUY™

TURN YOUR FUEL INVENTORY 20% FASTER!

Pinnacle's Smart Buy™ and Symphony. fuel real-time inventory™ make it possible to accurately forecast, confirm, and manage a true "just-in-time" fuel program that can reduce the time and costs associated with turning your fuel inventory!

Volatile fuel prices and declining margins are the most difficult components to manage in the convenience store industry today. The last thing any fuel retailer needs is an excess in expensive fuel inventory that sells at a net loss. Pinnacle's Symphony.fuel real-time inventory and Smart Buy are two of the most useful tools in the fuel marketing industry for making cost efficient fuel inventory replenishment decisions.

Historically, the entire petroleum industry has operated at the "top" of the tank, keeping excessive levels of expensive fuel inventory at all times. In this day and age, that is a recipe for financial disaster. Operating under the "just-in-time" (JIT) concept, however, you can meet the needs of your customers without wasting money on excessive fuel inventory.

Symphony.fuel real-time inventory provides an on demand, accurate snapshot of what is currently in your inventory at any given moment. Smart Buy, a feature of Pinnacle's Fuel Smart®, allows you to accurately forecast future inventory needs to keep up with your customers' demands. ●

> " *Smart Buy's fuel inventory business intelligence (BI) forecasting model has allowed us to turn our fuel inventory* **20% faster** *than previous methods used* "
>
> *- Bob Carpentier*

Bob Carpentier, Fuel Director, Quick-Sav Food Stores

PINNACLE SOLUTIONS

THE LATEST AND GREATEST!

SYMPHONY wfm

A completely browser based software solution; Symphony.wfm™ is a time and attendance system that allows you to collect and organize your employee timesheet data simply and accurately. Part of Pinnacle's Symphony browser-based enterprise solution suite, Symphony.wfm empowers you to proficiently and successfully manage your employee time information. Employee information is there for you to immediately access, review, edit, respond to, report on, and use from any web browser. Symphony.wfm is a very powerful tool for managing the most expensive and important resource of any organization—people.

SYMPHONY Fuel Portal

Pinnacle's Symphony Fuel Portal™ is a modular based technology which synchronizes file exchanges from one disparate application to another, thereby creating a more powerful, useful tool. Symphony Fuel Portal enables data exchange between all of Pinnacle's fuel solutions. Symphony's expandable modular approach allows different groups to use common information differently. Included within the Symphony Fuel Portal suite of solutions are: Symphony.fuel real-time inventory™, Symphony.fuel customer access™, Symphony.dispatcher workstation™, Symphony.enterprise performance management 70™, and Andalé!™.

SYMPHONY fuel real-time inventory

Symphony.fuel real-time inventory™ is a real-time fuel inventory solution that stands alone, to provide valuable inventory information. Built on Pinnacle's Symphony Fuel Portal Platform, Symphony.fuel real-time inventory is fully browser based, accessible from anywhere, anytime, from any device that can support a web browser. Symphony. fuel real-time inventory also integrates seamlessly with Pinnacle's Fuel Smart fuel management solution, providing dispatch operators with up to the minute fuel inventory readings within Fuel Smart, allowing them to perform "Just-in-Time" inventory management. Splash Blending, multiple suppliers and up to the minute information are now the standard. Fuel Smart enabled with Symphony.fuel real-time inventory provides the accurate and timely information demanded by operators desiring to reduce excess fuel inventories.
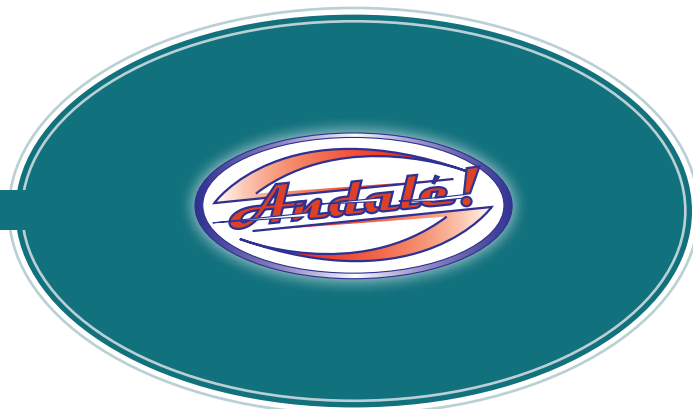
SYMPHONY fuel customer access

Today, petroleum rack prices and allocation change in a moment's notice. Multiple and frequent daily rack price changes lead to confusion, a decrease in customer confidence, and less than desirable financial consequences. Faxed and emailed fuel price quotes often become outdated the moment they are transmitted due to frequent price changes. Sending multiple replacement quotes is undoubtedly an inefficient way to communicate the latest pricing change. Pinnacle's Symphony.fuel customer access™ was designed to specifically address this problem, minimizing your customer's confusion regarding frequently changing wholesale fuel prices and credit information. Symphony.fuel customer access allows you to show reporting to your end customer so they can log on and see their pertinent account information, order history, current prices and credit information.

SYMPHONY
dispatcher workstation

Symphony.dispatcher workstation™ is designed to minimize the associated expenses, such as extra freight costs, when information is flawed. Today's Petroleum Marketers are shifting from the "keep full" inventory control model to the more cost effective real-time method for fuel inventory. Information is the most valuable commodity any business can have. Pinnacle's Symphony.dispatcher workstation displays real-time fuel inventory information in an easy to read, graphical format so that anybody can quickly discern the current inventory status.

The industry wide need for instantaneous BOL delivery has become one of the most pervasive issues for the petroleum marketing industry. Andalé!™ facilitates instantaneous BOL entry, reducing the lag time between dispatching a fuel load and receiving the carrier BOL. This ability enables you to earn increased revenue and gain a meaningful advantage in your decision making ability.

Andalé!

Come See Us in Booth #3945

at NACS**SHOW**.

October 20-23, 2009
Las Vegas, Nevada

Don't forget to check us out in the
Cool New Products Showcase!

Pinnacle is committed to solving key industry issues that have the
greatest impact on your organization's success.

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Pick Pinnacle.

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