Cardlock: The History and Future

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In the petroleum marketing world, marketing innovations seemingly come around only as often as ancillary forms of technology make it available. Occasionally, innovation actually does trace its true beginning to our industry; one such innovation is the cardlock station. In the beginning, cardlock was a head-turner for many marketers and the opportunity was very compelling to install units. Today, there are valid reasons to install units, but the reasons have changed over time. In this article we'll examine the viability of the modern day cardlock station and where the future may be heading.

First let's take a trip down memory lane…

The History

It's the early 1980s, President Reagan is in office, E.T. was playing at the movies, floppy disks actually WERE floppy disks and there is no such thing as "pay at the pump". As a matter of fact, it wasn't even called cardlock back then. The predecessor to cardlock was key lock, which was a bank of island mounted terminal boxes with individual meters. Usually reserved for commercial fueling, business owners would give a key to their drivers; they would activate their designated meter, and then pump the fuel. Somebody would come by periodically to read the meter and send the user an invoice for the fuel that was pumped. At the time, fuel costs were fairly flat and predictable. Back then, the major oil companies actually mailed out weekly rack prices.

In order to sell or add more accounts, key lock owners had to add more hardware. For each meter, a unique key was required. Some locations had over 500 meters on location, so you can imagine the mess. Then somewhere in the 80s, PCs started to become more common place and creative minds began conjuring up all sorts of ideas for possible uses. One of them was to replace key locks with a more efficient technology using magnetic encoded strip cards and island terminal readers. The first ones weren't even mag strip - they used cards with slots that allowed light to pass through them.

Pretty soon the idea caught on; through the dominance of unbranded marketers in the south, the idea proliferated. However, Major Oil Companies (MOCs) resisted the idea. Back in the 80s and early 90s there was a gigantic surge by MOCs to build and acquire as many c-stores as humanly possible. The idea eventually came up to actually put a card reader in the dispenser, which MOCs gave a total thumbs down to, declaring it "crazy talk". They believed that if a customer could pay outside, they wouldn't go inside, so best not to give that option. (Legend has it that the invention of the pump handle clasp was brought about by a Phillips 66 marketing executive to create a reason for customers to run inside the store while the gas continued to fill up then shut off automatically.)

However, the entrepreneurship of independent petroleum marketers knew a good idea when they saw it. Technology prevailed, and the creation of the island reader was invented. Initially this was accomplished by putting a standalone terminal on the fuel island. The customer

selected the pump, then walked back to the dispenser and pumped away. When finished, the customer walked back to the terminal and waited for the receipt to print.

Pretty soon, island readers were replacing key locks, and that ancient technology was scrapped altogether for the now more sophisticated "cardlock" system. Quickly the argument became - replace a finite number of key lock customers with an infinite number of "cardlock" customers. The majority of jobbers across the nation had a key lock behind their facilities and tapped into their bulk storage tanks; but with new and improved technology the idea of the cardlock system could really grow.

For a time, many old-timey jobber types were converting older gas stations that were slow movers and were only able to stay open during normal business hours. Remember, this is the 1980s, so c-stores haven't totally taken over the planet yet. Many jobbers that were faced with either closing or demolition due to the fierce competition of c-stores saw cardlocks as a way to extend the life of older gas stations. As a matter of fact, for a very small investment, a completely new life was being given to what could have otherwise turned into a derelict, worthless piece of property.

Challenge # 1: The Federal Government's Regulations

Sometime in the late 80s, after cardlocks started popping up all over the place, the Environmental Protection Agency stepped in and mandated that ALL petroleum storage tanks and associated piping be registered and tested to ensure tank tightness integrity. The EPA had been telling everybody this for 10 years, but this time they actually got serious and started to fine companies for being non-compliant (to the tune of $10,000 a day for non-compliance). The fear was that leaky fuel tanks could contaminate the underground water supply. Quickly, the #1 reason for putting in a cardlock went away, i.e.…

- Paid for depreciated locations
- Cheap investment
- No labor

The basic "good business idea" disappeared. To put in a new cardlock, the expense was almost as much as building a c-store. After you get the location, put in the tank, pipes, dispenser, canopy, lights, concrete, etc…. for a few more dollars, why not just go ahead and get in the c-store business?

Challenge #2: The Emergence of the Modern Day C-Store/Truck Stop

If the facility is unattended, well there's just not a whole lot of service you can offer to your customers. Back in the 70s and early 80s, just about all you had for filling up trucks were the older truck stops, so truck stops began to compete with c-stores as well. One of the biggest tricks the truck stops used was free food for the truckers. Most trucks hold at least 200 gallons, and many hold as much as 400; most conventional fuel dispensers pump around 7 to 8 gallons a minute (tops). Pretty soon truck stops began to change how they looked and operated. They realized - if they could lure the drivers inside while their trucks were filling up, they were more likely to sell them something. So fairly quickly, the truck stop model we know so well today emerged.

Rome wasn't built in a day. So starting in the mid to late 80s and creeping thru the mid 90s and beyond, there was massive growth in modern day c-store/truck stops. This also coincides with cardlock growth.

The Slow Disappearance of Cardlocks

In the beginning of cardlocks, MOCs would not allow the usage of their cards into "un-certified" systems, especially since they were basically buying most of the dispensers and owned or controlled the processing networks; they basically dictated to the dispenser manufacturers who was and who wasn't allowed to process a card. Consequently, in order to use a cardlock, any card used had to be a proprietary card issued exclusively by the marketer. In order to keep volume up at a location, marketers would need to promote and issue the cards. This means marketers would have to "carry the credit".

Now by the 90s cardlock owners are…

- Spending more money on operations
- Spending more money on construction
- Financing 100% of the credit issued
- Faced with the fact that for a few more dollars, they could go ahead and build a full blown c-store

The other thing that cardlock owners started to figure out several years after the fact…

- Tougher fire codes due to 24/7 un-attended operation
- Women hate these things, and marketers began to realize how much gasoline was purchased by women
- Men hate for women to be at these things at night, because in order to save money, operators didn't invest much money in lights or security
- They were a hive for late night delinquency
- Diesel is the only thing that really gets sold, and it's extremely difficult to keep the facility clean; most cardlocks don't provide trash cans, because trash cans need to be emptied. (Forget about a squeegee, that will last for about 11 minutes, and who's going to keep the blue stuff topped off?)

With more truck stops converting to the Super C-Store format by the mid 90s, it became extremely common place to sell diesel as a total loss leader. If it is going to take up to 30 minutes to fill up a big rig, then the game begins with the marketer to do everything humanly possible to keep a driver in the store as long they can. You don't have to be a marketing genius to know - if you can keep a customer in the store, your chances of selling a high margin product greatly increase.

Cardlock operators cater to a local trade. Regional truckers frequently traverse on a daily basis, over 50 to 100 miles from base. In a 100 mile area, there will likely be many chances to fill up a truck; the old rule of filling up at night doesn't really matter anymore. If a truck can hold 200 or 300 or 400 gallons, sometime in the next day or two, that truck is going to drive up on a truck stop.

Cardlock owners have only one thing to sell, and that is fuel. Truckers are going to buy it from the absolute cheapest place they can find.

This doesn't mean that there is absolutely no room for a cardlock location. In some areas, such as the southern CA agriculture base and remote reaches of west Texas and New Mexico oil field bases, a cardlock out in the middle of nowhere makes sense. Municipalities and school districts use them. Airport FBOs (Fixed Base Operators), such as Air BP, use cardlocks at many airports nationwide. Local fire marshals are becoming easier to deal with at Airport Cardlocks, and basically figure an airplane pilot is capable of re-fueling their own aircraft.

The Future…

The basic premise of the cardlock is still valid. As mentioned – rural areas, commercial businesses, aviation locations, and municipalities have all kept the device alive and kicking, however, the business model has been altered in recent years. While the idea is valid, for many reasons it may be cost prohibitive; though I will admit there are exceptions to every rule, and as a matter of fact, I know of many successful cardlock operators to this very day.

The basic idea of a fixed cardlock location seems to have been replaced by a quickly growing petroleum marketing phenomenon known as "mobile refueling". Instead of having fleet owners direct their drivers to a fueling location, they are having a mobile refueling truck come to a trucking fleet yard. Essentially, a highly trained refuel driver comes to a commercial fleet yard, (normally at night) and proceeds to refuel every truck in the yard. Gallons are accurately recording per truck and billed accordingly. The old adage "Service with a Smile" seems to be vogue once again.

The mobile refueling concept seems to hold great promise for petroleum marketers. While truck fleet operators seemingly pay more money for fuel per gallon for this premium service, overall operating costs reportedly go down when fleets uses mobile refueling. Apparently cost savings go down due to a reduction in labor and increase in productivity. (Remember it takes up to 30 minutes or longer to fill a truck, plus the mileage of going to the fueling location.) Shrink also goes down, and miraculously, miles per gallon increases (according to patrons of the concept)!

Mobile refuelers are not burdened with blinding EPA expenses and the need for risky and costly premium real estate. Obviously there are expenses, but if the business isn't there, you can always rollup your hoses and go somewhere else! ©